Austria	Sch22	Indonesia	Rs3100	Philippines	Peso40
Bahrain	Din0.650	Iran	Rls160	Portugal	Esc120
Belgium	BFr48	Israel	NIS3.50	S.Arabia	Rls8.00
Canada	C$1.00	Italy	L1700	Singapore	S$4.10
Cyprus	C£0.90	Japan	Y600	Spain	Pts145
Denmark	DKr10.00	Jordan	Fils500	Sri Lanka	Rup30
Egypt	E£2.25	Kuwait	Fils.500	Sweden	SKr9.00
Finland	Fmk7.00	Lebanon	L£250.00	Switz	SFr2.20
France	FFr7.00	Lux	LFr45	Taiwan	NT$65
Germany	DM2.20	Malaysia	Ringit4.25	Thailand	Bht50
Greece	Dr120	Malta	30c	Tunisia	Din0.900
Hong Kong	HK$12	Mexico	Pe300	Turkey	L600
Iceland	Kr125	Morocco	Dh6.00	UAE	Dh6.50
India	Rs15	Neth	Fl3.00	USA	$1.00
		Norway	NKr10.00		

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,723 — Monday December 19 1988 — D 8523 A

1992
Japan gears up for Europe
Page 2

World News

Political crisis deepens in Vanuatu

The South Pacific island state of Vanuatu, previously the Anglo-French condominium known as the New Hebrides, plunged into a constitutional crisis after months of political turmoil. Page 4

Spanish car bomb
A policeman was killed and at least 15 other people were injured when a car bomb exploded in a convoy of police vans in the town of Eibar in northern Spain's Basque region.

Eve of poll killings
At least nine people died in Sri Lanka as violence escalated on the eve of the country's presidential election. Page 14

Soviet withdrawal
Hungary's Defence Minister confirmed that the Soviet Union would withdraw a full armoured division from Hungary but the actual timing was not revealed. Page 3

Kenyan bus deaths
Thirteen people died and six were admitted to hospital after a minibus and a truck collided near Naivasha, 65km north-west of Nairobi.

Oilfields discovery
Iran announced it had discovered two major new oilfields, including one, south of Bushehr, with heavy crude reserves of 10 billion barrels, described as among the richest in the country.

Tibetan protest
Sixty Tibetan students marched on Peking's Tiananmen Square and the compound housing China's top leadership in protest at police killings of demonstrators in Tibet.

Mistake kills three
South African soldiers shot and killed two policemen and a civilian informer in a mix-up over a reported arms cache in Soweto.

Locust appeal
Jordan appealed for more foreign aid to help it to combat its first invasions of locusts for 30 years.

Fiji PM ill
Fiji Prime Minister Ratu Sir Kamisese Mara was admitted to hospital after a three-hour round of golf, apparently suffering from exhaustion. He was due to undergo tests.

Tokyo arson
Fire broke out in the grounds housing the mausoleum of a former emperor in the outskirts of Tokyo and police said they suspected left-wing radicals were responsible.

Polish opposition
The leader of Poland's banned Solidarity union Lech Walesa and more than 100 prominent opposition members met to prepare a common platform for talks with the Government on Poland's future.

S Korean protest
About 100 South Korean demonstrators, calling for the arrest of former authoritarian President Chun Doo Hwan, attacked a prosecutor's office in the southern city of Kwangju hurling petrol bombs and iron bars.

51 missing off boat
Fifty-one people are missing after a small ferry boat sank off the central Philippines during storms. Two passengers who swam for seven hours were rescued by a passing vessel after the sinking off the southern coast of Mindoro island.

Laos food appeal
Laos had a 255,000-tonne shortfall of rice after droughts and other scourges this year and will be appealing to international agencies for food aid.

Fieldmice reward
Bulgaria's authorities have offered a reward of 10 days' holiday to anyone willing to kill fieldmice by hand. The mice are breeding in crop areas and poison cannot be used.

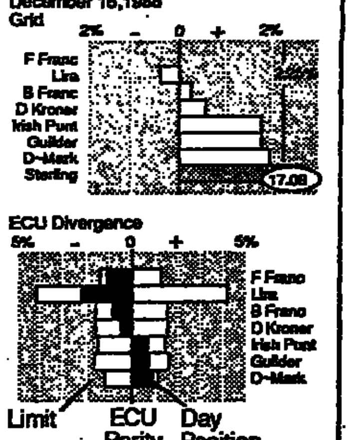
Business Summary

Paris bourse inquiry into new trading allegations

PARIS bourse has been shaken by a new financial scandal involving insider trading allegations over the recent acquisition by Pechiney, nationalised aluminium group, of American National Can (ANC), leading US metal packaging company. The Commission des Operations de Bourse is to launch an inquiry. Page 20

EUROPEAN Monetary System: A rise in the West German Lombard rate prompted a similar response in most other EMS countries last week. Consequently, with differentials little changed, the French franc remained under pressure against the D-Mark. The strength of the latter encouraged the Bank of Italy to sell D-Marks in Milan, and some traders are now beginning to question whether current EMS parities can be maintained. However, a firmer dollar provided some support for the weaker members, by supressing the D-Mark.

EMS



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.
Currencies Page 28

WILLIAM Jovanovich is to step down after 34 years as chief executive of Harcourt Brace Jovanovich, US publishing house which was plunged heavily into debt last year to save it from takeover by Mr Robert Maxwell. Page 20

CITICORP Scrimgeour Vickers, London equities arm of Citicorp of New York, is to narrow the scope of its market-making operations from 600 stocks to 400. Page 14

BOND CORPORATION, international brewing, media and property group headed by entrepreneur Alan Bond, suffered a major reduction in its already modest credit rating. Page 20

DAIMLER-BENZ, diversified West German motors group, now has better chances of taking a stake in Messerschmitt-Bölkow-Blohm (MBB) after appearing to run into difficulties last week. Page 20

THE MONTREAL Exchange, Canada's second largest, is preparing a system to support programme trading for large investors. Page 20

INTERNATIONAL Business Machines' new and strategically vital mid-range computer family, the AS/400 range, seems to be living up to the expectations of the world's largest computer manufacturer. Page 2

COMMON standards for health and safety at work are to be imposed across the European Community, thanks to a late-night compromise at a meeting of EC consumer affairs ministers. Page 3

BRITISH Petroleum signed a deal with Venezuela's state oil company to sell a new fuel in Europe, the UK group's first marketing venture with a member of Opec. Page 14

BANK NEGARA, Malaysia's central bank, announced extensive financial reforms which include changes to the government and private debt securities market. Page 17

A SHARP split within Drexel Burnham Lambert is hampering the Wall Street firm's efforts to negotiate a settlement with the Government to avoid a lengthy and possibly debilitating trial on securities fraud and other charges. Page 20

Estimates of earthquake carnage rise to 100,000

By John Lloyd in Leninakan

THE DEATH toll in the Armenian earthquake is now unofficially but widely estimated at about 100,000, or 15 per cent of the affected area's 700,000 population, according to foreign relief workers in the city of Leninakan.

Lt Horst Kohlbingen of the Austrian rescue team told a small group of foreign reporters that this figure was being used privately by Soviet officials in Yerevan, Armenia's capital, as well as by local people. The figure still used in official pronouncements is 55,000. To view Leninakan 10 days after the earthquake is to face images and stories of the deepest horror. Local people confirm the statements of Soviet officials that looting is now commonplace – as survivors huddle on the freezing pavements outside their ruined homes, drawing their few possessions about them, terrified to leave them.

Bitterness over the crime and disorganisation is very deep. Ms Susannah Melkunyan, an Armenian living in Leningrad who returned to Leninakan a few days ago, said: "If you leave your houses, even to bury the dead, people will steal from you."

The streets are patrolled by soldiers with rifles, and the towns of Leninakan and Spitak are ringed with armour, stopping all but a few entering.

Almost all the survivors interviewed were angered by the lack of organisation. Mr Thomas Saskiryan, who lost a son, daughter-in-law and grandchild in the collapse of a 10-storey block of flats, said: "They (the authorities) do nothing to help – we had to get out our own bodies."

Cranes were only secured by prolonged pleading. An article in Pravda over the weekend cited stories that crane drivers were demanding bribes to turn up at ruined buildings. The foreign workers, while stressing that the difficulties were huge, talked of a lack of co-ordination and control. Lt Kohlbingen, pushed to describe the organisation, said: "I presume there is some."

More forthrightly, Dr Jan Lijtens, a member of a Dutch medical team, told a Dutch reporter with the party that the organisation "is very, very bad."

In the course of a day in *Leninakan*, we saw people milling about with paper tokens waiting for hours for food, which one described as only that which had been salvaged

Rescue chaos, Page 18
Continued on Page 14

PLO says attacks on Israeli military targets will continue

By Victor Mallet in London, Tony Walker in Nicosia and Lionel Barber in Washington

LEADERS of the Palestine Liberation Organisation said at the weekend that they would continue to attack Israeli military targets and encourage the Palestinian uprising in the Israeli-occupied territories, despite last week's renunciation of terrorism by Mr Yassir Arafat, the PLO Chairman.

Mr Arafat's statement on terrorism in Geneva, accompanied by his recognition of Israel's right to exist in security, persuaded the US to lift its 13-year-old ban on talks with the PLO. A first meeting was held on Friday in Tunis.

The PLO, after a string of diplomatic successes, wants to maintain momentum towards an international Middle East peace conference, but its leaders are anxious not to make any further compromises towards Israel until the PLO receives some solid concessions in return.

"If President Reagan thinks that we will stop attacks against Israeli military targets, then I tell him to stop his dialogue now," Mr Salah Khalaf, deputy to Mr Arafat in the mainstream Fatah group of the PLO, told supporters at a rally in Abu Dhabi. "Neither military attacks nor our heroic *intifada* (uprising) will stop. We will carry on our struggle until the Palestinian flag is hoisted over Jerusalem."

Mr Arafat and other PLO officials, however, said they would do their best to prevent attacks on civilians, including Americans.

It remains to be seen to what extent the US will accept the *PLO's definition of terrorism*. Yesterday Mr Richard Murphy, a senior State Department official in charge of Middle East policy, said the US would expect the PLO leadership to "denounce, discipline and expel" any members linked to violence.

Amid reports that the US has ordered its embassies to be on alert for terrorist attacks, Mr Murphy said Washington would consider each act of violence "case by case" before determining whether the PLO was living up to its public renunciation of terrorism.

Mr Michael Armacost, Under Secretary at the State Department, said that if terrorism persisted the US would break off dialogue. He made clear, though, that Washington would not seek the removal of PLO members associated with past acts of terrorism but would look only to future PLO conduct.

Moderate PLO officials allied to Mr Arafat draw a distinction between "violence" in the occupied territories and international "terrorism." They fear that further PLO concessions could prompt a backlash from Palestinian radicals, and they believe that Israel will do its best to provoke just such a reaction by attacking Palestinian camps in Lebanon and by cracking down on the *intifada*.

Mr Murphy discounted Israeli complaints about the US decision to talk to the PLO. "There is no question about our reliability as an ally, our maintaining its (Israel's) military edge . . . no reason for a sense of betrayal," he said.

Israel has sharply criticised the US-PLO dialogue and many Israeli officials insist that the uprising in the West Bank and Gaza is a form of terrorism.

Yesterday Israeli troops shot dead three protestors in the occupied territories, bringing to eight the number killed since Friday in some of the worst violence of the year-long *intifada*.

Mr Arafat, meanwhile, held talks in Cairo last night with President Hosni Mubarak of Egypt amid continuing efforts by moderate Arab states to pave the way for a peace conference.

Egyptian and PLO officials say they want to keep world attention firmly focused on the Palestinian issue while the US Government is in transition. There is also a determined drive among the moderates to unify Arab ranks in preparation for a proposed Arab League summit in Riyadh in the new year.

"The next moves will be Palestinian and Arab," Mr Arafat said on his arrival in Cairo.

Telecoms pact for UK, Italy and Spain

By Terry Dodsworth, Industrial Editor, in London

BRITISH Telecom, STET of Italy and Telefonica of Spain have signed broad co-operation agreements in a move reflecting growing pressure from the European Commission for the liberalisation of telephone network operations.

Under the two collaborative deals, BT, the privatised UK telecommunications group, and its Italian and Spanish government-backed partners have agreed to work together in areas such as network modernisation, mobile communications, value-added services and international communications.

The agreements follow similar international deals earlier this year between BT, AT&T of the US and KDD of Japan, in which the three companies announced plans to raise co-operation. But the European accords also imply a more concerted collaborative effort to respond to complaints by European business users about the fragmented nature of pan-European telephone services.

There is a specific proposal for the development of "one-stop shopping", a system of hiring leased lines for private business use which would allow customers to procure a pan-European service through an agreement in only one country.

Users must at present hire lines separately in each country where they want to operate private leased circuits.

The tripartite European collaboration deals swiftly follow last week's controversial move by the European Commission to open the market in telecom-

Continued on Page 14

Pillsbury poised to accept higher GrandMet offer

By Roderick Oram in New York

PILLSBURY was poised last night to accept a $66-a-share takeover offer from Grand Metropolitan of the UK which valued the US packaged food and restaurant group at $5.75bn.

Victory was close for GrandMet in its two-and-a-half-month takeover battle as the board of the Minneapolis-based company met to vote on the deal hammered out by its advisers over the weekend after Pillsbury's last line of defence was invalidated by a court.

The takeover will present GrandMet with a big challenge to make the most of Pillsbury's collection of famous food brands and to turn round its struggling Burger King fast-food restaurant chain. Its sales were $6.2bn in its fiscal year to the end of May.

Pillsbury was forced into a negotiated settlement when a Delaware court ordered it on Friday evening to dismantle its poison pill defence and drop plans to spin off Burger King. The disposal was the core of a troubled restructuring plan it was trying to offer shareholders as an alternative to GrandMet's offer.

GrandMet had put out a conciliatory statement shortly after the ruling urging Pillsbury to agree to a friendly transaction after its fight for independence. Later that evening Pillsbury's advisers approached GrandMet asking if it would offer $66 a share.

GrandMet had tentatively offered that price during talks the previous weekend, but Pillsbury, pinning its hopes on the court upholding its poison pill defence, appeared then to be holding out for an offer in the range of $68-$73 a share which its advisers said the group was worth. It rejected GrandMet's formal increase in price to $63 from the initial $60.

Judge William Duffy of the Delaware Chancery Court ruled on Friday that the poison pill, which if triggered would have made a takeover uneconomic by flooding the market with new Pillsbury securities, "was not reasonable in relation to any threat posed." Pillsbury had argued that it was necessary to protect the 12 per cent of its stockholders who had not yet tendered their shares to GrandMet.

He said the risk posed to the minority was not so great that it should deny the majority of shareholders "their right to elect whether to accept or reject the GrandMet offer."

Pillsbury, on the advice of its lawyers and merchant bankers, apparently decided that an acceptable offer now was better than appealing against Friday's ruling. Further legal action could be lengthy and result in only a small price increase while running the risk of GrandMet aborting its bid.

GrandMet's advisers said it wanted an agreed deal so it had Pillsbury's backing to bring an end to anti-takeover litigation in several states. The companies were optimistic that there would be a speedy end to the legal action. It was thought likely that GrandMet would buy Pillsbury's stock before final resolution of the cases.

The final price is right at the bottom end of the range GrandMet and its advisers set themselves when they launched the bid in October.

World Bank puts forward new approach to world debt crisis

By Stephen Fidler, Euromarkets Editor, in London

A NEW approach to the international debt crisis is called for today by the World Bank.

In its annual assessment of developing country debt, the Bank proposes a new phase in the strategy to augment significantly the Baker plan, launched in 1985 by Mr James Baker, then US Treasury Secretary. This plan, still the main plank of the established approach to the debt crisis, envisaged that debtor countries would be encouraged through growth-oriented economic policies to grow out of their debts.

In the Bank's analysis, the Baker plan goals are still valid but its prescriptions have failed partly because a critical element of the strategy – continued new lending by commercial banks – has not been fulfilled.

This has resulted in significant transfers of resources from debtors to creditors, which reached record levels this year. As a result, except in a few cases, the plan's goals are no nearer today than they were three years ago.

With per capita income in many states below the level of a decade ago, debtor countries are likely to take a more radical approach to debt servicing unless a new approach can be found, the Bank says.

Its report emphasises that voluntary debt reduction by banks, in the form of debt-equity swaps, debt buybacks and the like, can play an important part in such a new approach. This can be combined with new bank lending to create "a broad co-operative framework in dealing with the debt overhang."

Commercial banks should take advantage of stronger balance sheets to share the discounts on Third World loans with countries which are undertaking economic adjustment.

Details, Page 3

Highly Indebted Countries

	Total Debt ($bn)	Of which: Private Banks (%)	GDP growth (Average % 1982-8)
Brazil	120.1	76.8	4.8
Mexico	100.0	78.1	0.2
Argentina	59.6	79.4	1.4
Venezuela	35.0	99.3	1.2
Nigeria	30.5	61.1	-0.3
Philippines	30.2	60.0	-0.1
Yugoslavia	22.1	61.9	1.0
Morocco	22.0	29.0	3.6
Chile	20.8	74.3	4.3
Peru	19.0	61.5	2.9
Colombia	17.2	48.0	4.1
Ivory Coast	14.2	60.2	1.3
Ecuador	11.0	63.6	1.5
Bolivia	6.7	27.3	-1.4
Costa Rica	4.8	53.2	3.6
Jamaica	4.5	17.8	0.7
Uruguay	4.5	77.1	1.7

Source: World Bank

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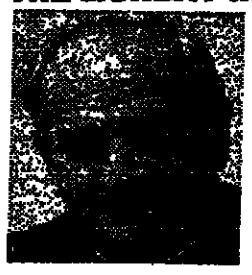

The Most Reverend Dr Robert Eames, Anglican Primate of All Ireland, gives his views on the troubles of Northern Ireland and the ways in which his Church is working for peace
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OVERSEAS NEWS

US-Israel ties 'put to severe test'

By Andrew Whitley in Jerusalem

MR YITZHAK SHAMIR, the Israeli Prime Minister, shocked by the opening of talks between the US and the Palestine Liberation Organisation last week, has called into question the future well-being of Jerusalem's relationship with Washington.

In a separate television interview, Defence Minister Yitzhak Rabin attacked the US decision as "a grave mistake", saying it had "legitimised" the Palestinian uprising. Three more young Palestinian men were shot and killed by the army yesterday, bringing the death toll since Friday, when the latest violence upsurge began, to nine.

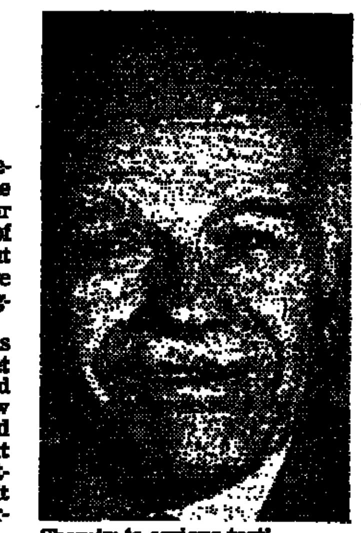
Noting that serious disagreements between allies need not harm the alliance itself, Mr Shamir observed that this principle had been put to "a very serious test". Breaking an unusual, two-day silence, he told his countrymen that the US had "decided to enter negotiations with Israel's most extreme enemy".

What diplomatic response can me made continues to perplex Israeli policymakers. At yesterday's cabinet meeting, two senior Labour Ministers, Mr Moshe Shahal and Mr Gad Ya'acobi, tabled a proposal to grant autonomy unilaterally to Palestinians in parts of the occupied territories.

But, in another sign of the way in which Mr Rabin is closer on many issues to the Likud than to his erstwhile colleagues in Labour, the Defence Minister joined Mr Shamir in rejecting the proposal. Such a move would be tantamount to a unilateral Israeli withdrawal, he told the Cabinet.

Not that the mood within the Israeli establishment is totally rejectionist towards the rejuvenated Mr Yassir Arafat of the PLO. On the left of the Labour Party, an increasing number of senior figures are speaking out in favour of giving a positive response to the country's long-serving arch-demon.

The latest to join the band is Mr Mordechai Gur, a Cabinet minister and former armed forces chief. In an interview published yesterday, he said the opportunity was present for the PLO to become a partner to peace talks, provided it took practical steps to end "terrorism".



Shamir: 'a serious test'

More nuclear weapon plants 'may have to be shut down'

By Lionel Barber in Washington

THE US Energy Department has warned the White House that it may have to shut down more nuclear weapons plants if it is to comply with safety and environmental laws.

Mr John Herrington, US Energy Secretary, said in a letter seeking more funding in next year's budget that his Department faces a choice of either upgrading plant safety or meeting the Pentagon's production goals for nuclear materials.

Mr Herrington's warning comes amid reports that E.I. Du Pont de Nemours & Company, which manages three closed military nuclear reactors in South Carolina, had notified the government of a crack in one of the reactor's cooling systems.

This followed discovery of other cracks in a separate reactor at the Savannah River complex which were not reported for several months, the New York Times said yesterday.

Nuclear reactors at the Savannah River plant in South Carolina have been shut down since June because of safety problems. They are the sole source of tritium, a perishable gas which is vital to the country's warheads.

The Department has already recommended spending $50bn (£27.7bn) over the next 20 years to build new plants which comply with safety and environmental laws.

Mr Herrington's letter stems from disatisfaction with the amount of money earmarked for the Energy Department in President Reagan's fiscal 1990 budget, due to be submitted to Congress next month.

The Department is due to receive a $900m increase, a rise of nearly 10 per cent over this year's $12bn. But the money was apparently approved before the full extent of problems at Savannah River – and at separate plants at Rocky Flats in Colorado – was known.

Mr Kenneth Duberstein, White House chief of staff, confirmed that he had received a letter from Mr Herrington. But Mr Duberstein suggested that the Department could use money left in the department's atomic energy contingency fund to bridge the shortfall.

Mr Herrington complained that this would reduce the fund to zero, "an unprecedented action which eliminates all funds for contigencies". He added: "Part of today's problem stems from our attempts to stretch, defer, and absorb budgetary shortfalls..."

Unicef in deal to tap debt-swap market

By Peter Montagnon, World Trade Editor

UNICEF, the United Nations Children's Fund, is tapping the developing country debt-swap market for the first time, in a deal with Midland Bank that will allow it to fund rural water supply projects in the Sudan.

Under the deal, it will acquire Midland's holding of Sudanese debt with a face value of $800,000.

This will be redeemed with the Sudanese authorities for a smaller amount of local currency to finance a water sanitation programme in the most drought-prone areas of central Sudan.

Midland is giving away the debt to Unicef partly as a gesture of goodwill and partly as a means of removing from its books an unwanted piece of business it inherited from its former Crocker Bank subsidiary in the US.

Its own cost will be minimal because the debt is already fully provided for in its accounts and because Sudanese debt trades at only 2-5 per cent of its face value in the secondary market.

Unicef will be able to realise a larger amount in Sudanese pounds through the exchange. Unlike Midland, it has a direct use for Sudanese currency.

Though still regarded as experimental, the deal highlights a growing interest on the part of development organisations in using the discounts available on developing country debt to make their funds go further.

"It's of immediate benefit to people with a double effect of debt relief and development," said Mr Cole Dodge, Unicef representative in Khartoum.

Among official aid donors, the Netherlands has financed projects in Zambia and Bolivia with debt swaps arranged through Nederlandsche Middenstandsbank, but this is the first development-related deal to involve a British bank.

Moscow to draft new customs tariff system

By Quentin Peel in Moscow

THE Soviet Union is to draft an entire new system of customs tariffs and regulations in the coming year, in preparation for negotiations with the General Agreement on Tariffs and Trade (Gatt) and the European Community.

A raft of economic legislation is also promised for the next two years, including new laws on shareholders' associations, on competition, consumer protection, the procedure for foreign currency operations, and an overall foreign trade law by 1990.

As part of the broad overhaul of the country's foreign trade system, the Soviet authorities are also to set up an export insurance scheme for Soviet exporters. From April 1 next year, any Soviet enterprise will be allowed to import and export independently, provided it can show it is competitive on the world market.

The country's foreign trade bank – Vneshekonombank – will also be allowed for the first time to advance loans of up to 5m roubles in foreign currency to Soviet enterprises, to promote exports.

The huge scale of the legal reform programme affecting both the domestic economy and foreign trade relations was spelt out at the weekend, when the full text of a decree by the Council of Ministers was published.

The first step in the process will be the overhaul of the customs tariffs and regulations, required for any negotiations with the Gatt. In effect, the Soviet Union needs to introduce a coherent tariff system in order to negotiate it away.

All the major ministries concerned have been told to submit proposals for a new customs tariff system by January 1, 1990, the decree says. The new system will have three aims, the decree says:

● to set coherent prices for imported goods which fit in with promised internal price reforms.

● to regulate supply and demand on the domestic market, and "as a basis for conducting international trade negotiations, including negotiations with the Gatt and the EEC".

From January 1, 1989, the decree promises "a system of measures for the non-tariff regulation of foreign economic relations" without spelling out any details, but also "with the aim of achieving favourable results in international trade negotiations".

The target for the Soviet Union to open negotiations to join the Gatt is 1990, according to top officials in Moscow, although they still expect the process to last up to five years after that.

The full text of the decree gives few further details of the promised overhaul of foreign exchange transactions, including an effective 50 per cent devaluation in the rate of the rouble applied to trade transactions by Soviet enterprises, from January 1, 1990.

Argentine amnesty may be near

By Gary Mead in Buenos Aires

MR JOSE Jaunarena, Argentina's Defence Minister, has increased speculation that the Government is preparing an amnesty for officers jailed over human rights crimes committed during the last military dictatorship. Such an amnesty is one of the demands of army rebels, led by Colonel Mohamed Ali Seineldin, who staged a four-day mutiny this month.

Speaking at a graduation ceremony at the weekend for officers of the armed services, Mr Juanarena said the so-called "dirty war", when thousands of people disappeared during what the military regarded as legitimate counter-insurgency operations, was "necessary".

General Dante Caridi, army chief of staff, earlier gave a television interview in which he warned of fresh insurrections if the underlying motives of the rebellion were not quickly resolved.

The general, who failed to muster sufficient loyal forces to crush Colonel Seineldin's rebellion, stressed that he and the colonel agreed during the mutiny "there was no intent to endanger the democratic system". The general said he was in full agreement with the rebels' demands, the only difference being over the means they chose to press their case.

He described the armed forces as wanting a restoration of "honour and dignity" to their role, through a recognition that the "war against subversion", before and during the military regime of 1976-83, had been necessary and justifiable. He said "there was no repression, only war", adding the "intelligence apparatus of subversion has not been defeated".

It has been suspected since the end of the rebellion that many of the rebels' demands have been conceded by the government, the only doubt being over the timing of the amnesty and the reintegration to the army of former rebels now retired or in jail. The general is starting only now to reveal this.

His remarks place President Raúl Alfonsín in a very difficult position because he backed the general throughout the crisis. Now that the latter has thrown his weight behind the insurgents, and the army shows every sign of being united, it seems only two alternatives remain – further army unrest or an eventual submission by the government.

IDB steps up effort to resolve dispute with US

By Stewart Fleming in Washington

THE Inter-American Development Bank, the Washington-based multilateral lending agency focusing on Latin America, is intensifying its efforts to resolve a dispute with the US over the bank's operations.

The move comes in a bid to secure US approval for a major increase in its lending capacity.

Mr Enrique Iglesias, the former Foreign Minister of Uruguay who was appointed IDB President last year, is expected this week to present to the bank's board initial proposals for reforming the institution, including a plan for a cut of up to 6 per cent in the bank's staff of 1,750.

Mr John Petty, former chairman of Marine Midland Bank, who has headed a top-level committee which has prepared a report on the bank's operations being released today, said "the bank will operate at a smaller level of staff for a while, with a higher staff turnover".

In recent years, the IDB has stagnated. Loan commitments have dropped from $3.6bn (£2bn) in 1984 to $1.9bn a year, hard-pressed Latin American countries are now making bigger repayments to the bank than they are receiving in new loans, and the organisation has been widely criticised as bureaucratic and ineffective.

The report calls for a "fundamental renewal" of the institution to include basic reforms of its internal structure, organisation and procedures.

Mr Iglesias, discussing the report, said that apart from changes in staffing and management including increased delegation of authority, the bank's management believes the bank needs to begin to make sectoral loans aimed at promoting economic reforms, not just project lending, and to devote a greater proportion of its resources to technical assistance.

Garcia quits top party post

By Veronica Baruffati in Lima

PRESIDENT Alan García of Peru has resigned the presidency of the ruling Apra party, after the stormy inauguration of its 16th congress on Friday night.

Alan García's 90-minute inaugural address to more than 2,000 delegates was interrupted by jeering, whistling and party chants to demand a wholly Apra government and an end to appointments of friends to powerful positions.

In a letter addressed on Saturday to senior party officials, Mr García pleaded that there were many non-Apra Peruvians who could contribute to the administration of the country.

He ended by writing: "I am no longer the undisputed leader I was three years ago. I am no longer the man of triumph. I am an Apra man, the target of insults which can involuntarily harm my colleagues. But I do not regret having fought against the mighty, against the International Monetary Fund and local groups with economic power. History and the spirit of Haya de la Torre (founder of the Apra party in the 1920s) will prove us right in our solitude. I return with untarnished dignity to being an Apra militant in support of our party."

The job of party president, created for Mr García at the last Apra congress in 1985, would have been very difficult for him to keep after the public criticism he received on Friday night. It remains to be seen whether this position will now be abolished, filled or left vacant for the time being.

Organisational problems had delayed the congress by one full day. Most delegates have not yet received credentials required to attend.

It now appears certain that Mr Luis Alva Castro, a former prime minister, will enjoy a sweeping victory in the election of Apra secretary-general.

Belgian under threat

A PREVIOUSLY unknown Moslem radical group said yesterday it was holding Dr Jan Cools, a Belgian who disappeared in southern Lebanon on May 21, Reuter reports from Beirut. The group, Soldiers of Truth, said it would put him on trial for spying for Western countries and Israel. The statement, to a news agency, was accompanied by photocopies of his personal papers.

Japanese decide to hedge bets

Stefan Wagstyl reports on the worries of financial companies

JAPANESE financial companies believe that the European Community's plans for economic integration will probably come to fruition. They hope that this will be achieved without the creation of a protectionist Fortress Europe. Just in case things go wrong, though, they are trying to establish their operations in Europe on as firm a base as possible before 1992.

There are two main worries. The first is a fear that post-1992 regulations might discriminate against non-European financial companies. The second is a concern that London, where most Japanese large financial companies have their biggest European operations, might lose its dominance of European financial markets as Paris, Frankfurt and perhaps other centres compete more freely for business.

"We just don't know anything about EC regulations in the future: what is concrete and what isn't," says Mr Tetsuro Yamamoto, chief manager of the international planning division of Mitsubishi Bank.

Japanese companies put their names this month to a public appeal for open access to European markets after 1992. The call was made jointly by 18 leading international bankers, mainly from the US.

To safeguard their position, the Japanese have been busy broadening their European networks – so as to make themselves look as European as possible and to make sure that all their European eggs are not in the basket marked London.

The Japanese were stirred into action by the publication in January of the European Commission's proposals for integrating the regulation of the banking industry – including plans for a pan-EC banking licence.

All kinds of Japanese financial companies, not just banks, studied the Commission's ideas, in the knowledge that non-banking areas of the financial markets are to be covered by other proposals yet to be announced by Brussels.

Since the summer, the number of Japanese banks and securities companies with offices in West Germany has jumped from six to 11, with a twelfth likely before the end of the year. The newcomers include Sumitomo Bank, Mitsubishi Bank and Dai Ichi Kangyo Bank.

In Paris, Sumitomo, Sanwa and Mitsui banks have opened branches, taking the total of Japanese banks with branches there to eight. Fuji Bank and Sumitomo Bank have secured listings on the Paris Stock Exchange, as has Nikko Securities, the third largest securities company. Sanwa Bank plans to join them this month. On December 12, Fuji Bank upgraded its representative office in Milan to full branch status.

Preparing the ground for 1992 was not always the only motive behind these moves. In West Germany, for example, an important reason was the grant, late in 1987 and for the first time there, of permission for Japanese banks to run securities operations.

However, Mr Takuji Shidachi, president of Mitsubishi Trust and Banking, probably spoke for the majority of Japanese bankers when he said at the opening of his German subsidiary in October: "It was our earnest desire to have a foothold in Frankfurt, the centre of the D-Mark zone, to prepare for the EC's integration in 1992."

At first sight, this rush to open offices seems illogical. After all, a pan-European licence should mean, in principle, that a financial company licensed in one community country will be free to do business in them all. However, the Japanese are familiar enough with the politics of European integration to know that it is likely to be a long hard road from principle to practice.

Mr Hisao Kobayashi, director and general manager of international co-ordination and planning at Dai Ichi Kangyo Bank, says: "The EC still consists of 12 countries each with its own history . . . Everyone agrees on the idea of integration but it will be hard to agree on the practical arrangements."

Japan's main worry is that Europe will become a protectionist fortress, dropping internal barriers only to put up higher ones to the outside world. The biggest fears concern the principle of reciprocity – an insistence by the European Commission that foreign companies should be granted access to European markets only if European companies are granted rights of access in overseas countries. The precise meaning of access would be settled during negotiation between the EC and trading partners.

The European Commission has said that the provisions would not be imposed retrospectively in the case of banking. So banks with pre-1992 offices ought to be treated in exactly the same way as their European counterparts. Even so, Japanese bankers, like their colleagues in manufacturing industry, fear that if there is a resurgence of European protectionism, they could be the first to suffer. Moreover, Japanese financial companies are as aware as anyone in Europe that national governments frequently bend EC rules to their own advantage.

At Mitsubishi Bank, Mr Yamamoto says that most large Japanese institutions should be in the clear because they have already established operations in Europe. Second- and third-tier companies, though, could be in trouble. Out of 50 Japanese banks with offices in London, 19 do not have banking licences. At least 10 of them would like one, among them Hokkuriku Bank, a regional bank.

The second main concern of Japanese companies is the possibility that their links with the City of London might weaken after 1992. They fear that the UK is less committed to the cause of European economic integration than are some other countries.

Japanese bankers say Mrs Margaret Thatcher's opposition to Britain joining the European Monetary System could leave the UK isolated at some stage in Europe-wide financial policy-making. "Every EC country except Britain is moving in the same direction," says Mr Kobayashi at DKB.

Besides, moves towards European economic integration have coincided with a period of rapid change in the regulation of financial markets. In London, the rules have been tightened with the introduction of a tough new investor protection code, just as regulations in West Germany and, especially, France are being relaxed. Those two countries have especially become much more open to foreign companies.

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The British authorities have recently revised their new code, but Japanese companies, among others, still feel the regulations are too restrictive. Mr Yamamoto says: "Many of the rules seem absurd . . . The City has traditionally moved between loosening and tightening controls, but this time they have gone too far."

As a result, Paris and Frankfurt look more attractive as financial centres than at any time since World War II.

The chances that Japanese financial companies will move out of London lock, stock and barrel are remote. However, some business could flow away from the City to other European centres. Mr Kobayashi says: "If the UK becomes less favourable for Japanese investment, we can't leave all our resources in London."

Mr Yamamoto adds: "I think what's likely is a multi-centre European market. London has obvious strengths, but it is not likely to keep the monopoly of international transactions it had five years ago."

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EC to impose agreed standards on work safety

By William Dawkins in Brussels

COMMON standards for health and safety at work are to be imposed across the European Community, thanks to a late-night compromise by EC consumer affairs ministers.

The scheme, which must be vetted by the European Parliament before it can take effect, specifies what employers must do to ensure every aspect of workers' health and safety. This is to be the first imposition of broad obligations as to health and safety on employers throughout the EC, though some countries, such as West Germany and the UK, have detailed laws on working conditions.

Britain had been delaying an accord on common standards because the European Commission plan would have imposed absolute requirements. This concept would have created serious practical problems for the flexible UK legal system, as for Ireland, to a lesser extent.

Compromise was made possible by a late redrafting of the plan to introduce more legal flexibility.

The directive is of high political importance to Greece in the final days of its EC presidency, due to end with this year, as well as to the Commission. Both see it as an important contribution to injection of a stronger social policy for the EC's business-oriented internal market programme.

Five other work safety laws – all more specific and in varying stages of agreement – will be built on the framework of the new accord and cover such subjects as protective clothing and exposure to computer screens.

Hungary confirms troop cut

By Judy Dempsey in Vienna

HUNGARY'S Defence Minister has confirmed that the Soviet Union will withdraw a full armoured division from Hungary, but the actual timing has not yet been revealed.

The announcement by General Ferenc Karpati followed a one-day meeting of Warsaw Pact defence ministers which met in Sofia, Bulgaria, on Saturday.

The meeting, chaired by Marshal Viktor Kulikov, commander-in-chief of the Warsaw Pact, was the first since Mr Mikhail Gorbachev, the Soviet leader, announced sweeping unilateral cuts in troops in New York earlier this month.

These include the withdrawal of six tank divisions and 50,000 men from Central Europe over the next two years, as well as the reduction of Soviet forces by 500,000.

Gen Karpati also said the Soviet Union would withdraw its aircraft and "sub-units" stationed in Hungary since 1956.

No details have yet emerged on the precise number of troops and tanks to be withdrawn from East Germany or Czechoslovakia.

The meeting was held "in a spirit of mutual understanding," according to the Bulgarian news agency.

Debt strategy 'must enter a new phase'

World Bank study suggests time is ripe to rework consensus, reports Stephen Fidler

"THE TIME has come for the international debt strategy to enter upon a new phase." These words – of Mr Jean Baneth of the World Bank's economic division – are the essence of the hundreds of pages which comprise the World Debt Tables, the annual analysis of the external debt of developing countries by the World Bank, published today.

"The declining interest of commercial banks in sovereign risk lending to highly indebted countries coupled with the continued uncertainties arising from the debt-overhang may be a signal that it is time to rework the 1985 consensus," says the report.

That consensus is the plan enunciated by the then US Treasury Secretary, Mr James Baker, at the Seoul meeting of the International Monetary Fund and World Bank.

It envisaged that the debtor countries would grow out of their debt problems by pursuing approved growth-oriented economic policies, which would be supported by new loans from creditors.

These new loans have not been forthcoming, and have comprised in recent years only about a quarter of interest payments. The result has been continuing net transfers of resources from the developing to the developed world.

The adjustment burden that this has necessitated in the debtor countries has fallen mainly on investment.

Falling investment and declining support from creditors are mutually reinforcing, since the uncertainty triggered by the debt crisis deters both internal and external investors.

In some ways, the prospects for a resolution of the crisis have receded. Even the few new financing packages that have been put together recently have concentrated on clearing arrears to commercial banks and have not contained the forward-looking aspects of earlier financings.

Income per head in most debtor countries is still below the level of a decade ago. This, say World Bank officials, is bringing about a decline in health and education standards that are yet to be reflected in statistics.

Unless something is done to counter this, the alternative "may be the erosion of political support for national governments and prudent economic policies, and the radicalisation of attitudes towards servicing debt among the highly indebted countries."

For the 17 most indebted countries, net resource transfers reached a record \$31.1bn (£17.2bn) in 1988, according to the Bank's preliminary estimates, up from \$21.8bn in 1987 and \$25.8bn a year earlier.

For all developing countries – this includes countries such as South Korea which are pre-paying debts – net transfers to the developed world will amount to \$43.0bn against \$38.1bn last year and \$28.7bn in 1986.

Highly Indebted Countries (HICs)	1982	1983	1984	1985	1986	1987	1988
Total external debt (\$bn)	391.0	422.0	438.0	454.0	482.0	527.0	529.0
Net Flows to HICS (\$bn)	34.6	19.1	13.3	6.0	4.5	6.2	7.6
Net resource transfers to HICs (\$bn)	3.7	-9.9	-19.9	-26.5	-25.8	-21.8	-31.1

Source: World Bank

Nevertheless, the pace of growth in total debt of all developing countries actually slowed this year, and the total stock may shrink in 1989.

This slowing – the Bank estimates developing country debt at \$1,320bn at the end of this year against \$1,281bn in 1987 and \$1,152bn in 1986 – is due to three factors: exchange rate changes, and specifically the strength of the dollar in the first part of this year, the continued reluctance of commercial creditors to lend, and the growth of debt reduction techniques.

The space in the report devoted to voluntary debt reduction by Bank creditors – techniques such as debt-equity swaps and debt buy-backs – is considerable, marking a significant contrast with previous years. "This most important breakthrough" has enabled banks to seek a mutuality of interest with debtors and offers "the potential of significant progress in dealing with the debt-overhang in highly indebted countries".

Along with the expansion in the menu of options in debt work-outs and the improvement in relations between creditors and debtors - Peru's attempted and Brazil's real rapprochements with lenders are cited as examples - debt reduction is one of the positive developments of 1988.

Much more needs to be done, the report underlines, although it insists that developing countries themselves must continue to assume primary responsibility for their own fate. Its prescriptions for reworking the Baker Plan are:

- A more stable financial environment, which depends to a large extent on maintaining progress to reduce payments imbalances among the largest industrialised countries.
- A more liberal trading environment.
- Improved co-ordination among creditors. "Bank regulators and tax authorities should continue to make efforts at liberalising and standardising tax and accounting rules, more uniform treatment of loan loss reserves, and regulatory regimes in order to promote the banks' collective interest and avoid a further reduction in the number of active creditors."
- More help from banks, which should take advantage of their strengthened balance sheets to enable well-performing countries to benefit both from debt reduction and concerted new lending.
- A further expansion of the menu of options for creditors in order to maximise the benefits of debt work-outs. These should include voluntary interest capitalisation as an alternative to new money.
- Stepped-up lending from industrial countries and multilateral agencies. The World Bank itself might help in the provision of partial guarantees to commercial banks, where essential to close a transaction and when compatible with the Bank's overall strategy.

Gaullist RPR chiefs agree party reforms

By Ian Davidson in Paris

THE LEADERS of the Gaullist RPR party in France have ratified a reform of its statutes, so as to make it more democratic and more accountable to the grass roots. This follows six months of internal debate over the causes of the defeat of its candidate in the presidential election this year.

The shock of Mr Jacques Chirac's defeat by President François Mitterrand provoked recriminations by reformists inside the party, claiming that the leaders had lost touch with the electorate because the party was too centralised and too autocratic.

Under the new statutes, tabled by Mr Alain Juppe, the party's new secretary-general, the principle of election from below will displace that of nomination from above. Every tier of the party's hierarchy is to be mainly composed of directly elected members from the party's grass roots. The nomination of the secretary-general by the president (now Mr Chirac), and the former's annual report, will require rank-and-file approval.

The central committee of the Gaullist party has also adopted a 20-point policy platform on Europe, which proclaims support for the EC single market of 1992, while hinting ambiguously at an undercurrent of nationalism and protectionism.

Mr Edouard Balladur, a former Finance Minister, said: "We want a Europe which is both liberal and organised, which will be built in realism, in agreement with the nations whose identity it will respect." The platform called for a European currency and a stronger European defence within the framework of Nato.

The Gaullist platform was designed to promote the formation of a common alliance by France's conservative parties in the campaign for direct elections to the European Parliament next June.

To secure such an alliance, the Gaullists have said they are ready to concede leadership of a joint list of candidates to a non-Gaullist. The most likely candidate for this top position would be Mr Valéry Giscard d'Estaing, a former President of France and now leader of the UDF centre-right grouping.

The Gaullist aim of a conservative bloc of candidates in the European Parliament elections in France already seems to have come unstuck, however, because the centrist CDS party has decided not to throw in its European electoral lot with any part of the remainder of the French political right.

Lufthansa challenge runs into difficulty

By David Goodhart in Bonn

THE FIRST serious attempt to challenge the monopoly of West Germany's state-owned airline Lufthansa, on scheduled domestic routes, is running into trouble after six weeks.

Aero Lloyd, West Germany's fourth biggest charter operator, is flying 119-seat DC 9s and 137-seater MD 83s with virtually no passengers between Munich, Frankfurt, Hamburg and Düsseldorf.

Mr Walter Schneider, a senior executive at Aero Lloyd, admits that most flights are carrying only 10 to 15 passengers, although others in the industry put the average number per flight at 7.3 – a load factor of only about 5 per cent. Breakeven is calculated at just over 50 per cent.

However, Mr Schneider insists that initial heavy losses were expected and can be borne for a long period. He hopes that a big advertising drive and possible package deals with major companies will improve business. Aero Lloyd, 49 per cent owned by Mr Bogomir Gradisnik, is charging between 10 and 15 per cent less than Lufthansa.

Apart from air-taxi services and flights on feeder routes, Lufthansa has never known substantial internal competition. Soon, however, it will face two competitors, for next April the Burda brothers, the well-known German entrepreneurs, are to launch German Wings, which will aim to beat Lufthansa on quality rather than price. The Burda brothers will be able to carry heavy losses, at least initially, because of short-term tax benefits.

In the longer run, though, it will difficult for any carrier apart from an international one to compete viably with Lufthansa. A large proportion of Lufthansa's internal passengers is made up of people connecting with international flights, whose internal flight is almost free. Lufthansa also has long-established special deals for business travellers.

Additional problems for would-be competitors are the lack of the best time slots and the refusal of Lufthansa to allow passengers from competing internal carriers to switch to its flights if these are earlier or later than expected.

SHIPPING REPORT

Freight rates for VLCCs show further strength

By Kevin Brown, Transport Correspondent

FREIGHT rates for very large crude carriers (VLCCs) continued to climb last week as brokers predicted that demand would continue to strengthen into the New Year.

Charterers seeking to push their programmes forward into January were said to be having little difficulty in finding suppliers.

This suggests that production is likely to remain above the 18m barrels a day ceiling recently agreed by the oil ministers of the Organisation of Petroleum Exporting Countries (Opec).

The VLCC rate for the trip from the Gulf to North-West Europe moved up to around Worldscale 70 during the early part of the week.

By Friday, a South American principal was reported to have paid Worldscale 75.5 for 270,000 tons of crude from Iran to Brazil as part-cargo on a ship of 300,000 tons.

A ship of 400,000 tons, redelivered from Iranian charterers, quickly found a cargo of 390,000 tons to Japan at Worldscale 64, and a vessel of half the size was fixed at Worldscale 90 for a similar trip.

Demand was strong in West Africa, where ships capable of carrying 1m and 2m barrels were being sought.

VLCCs for the trip from Nigeria to the US were being fixed at around Worldscale 75, and the rate for cargoes of around 120,000 tons was said to be around Worldscale 100.

OVERSEAS NEWS

Gandhi visit hints at a Sino-Indian thaw

John Ridding and **K.K. Sharma** report on relations between Asia's two giants

IN the 26 years since the end of the Sino-Indian war, relations between Asia's two giants have been little warmer than the icy Himalayan region where the fighting took place. Skirmishes since have ensured that the chill remains.

But Mr Rajiv Gandhi's arrival in Peking today, on the first visit by an Indian Prime Minister for 34 years, suggests a thaw may be in the offing. Although officials have discounted significant progress on the key territorial dispute, the trip is clearly intended to lay the basis for upgrading ties.

Warmer relations are in the interests of both parties. In addition to the increased national security which would result from a defusing of border tensions, both Peking and New Delhi have their own motives.

For China, stable external relations are seen as an important condition of domestic economic reform. The pragmatic foreign policy this entails has already brought progress on territorial disputes with the Soviet Union. A similar rapprochement with India would *enable further cuts in military* expenditure and allow more *resources to be concentrated* on internal restructuring.

For India, security considerations are reinforced by shifts in superpower relations. The recent Sino-Soviet rapprochement, which should be consummated with a summit early next year, has removed the constraint on New Delhi in seeking improved ties with its eastern neighbour and provided for increased flexibility in its foreign policy.

Failure to improve Sino-Indian relations as Moscow and Peking grow closer could reduce New Delhi's role in the region.

China says the border problem should be set aside while efforts are made to improve relations in other areas

Concern over this possibility was reportedly voiced privately during the recent visit to India by Mr Mikhail Gorbachev, the Soviet president. In response, the Soviet leader went out of his way to reassure India of the strength of their ties, emphasising their longstanding alliance and signing a series of lucrative economic deals. There is little doubt that Moscow is pressing for better Sino-Indian relations as part of *its strategy of creating a more* stable Asia Pacific region.

Domestic considerations are a factor in Mr Gandhi's visit. With elections due next year, progress on one of India's more pressing foreign policy issues would be an asset.

In addition, the growing budgetary deficit and difficult foreign exchange situation make it vital for India to lower the crippling burden of defence expenditure.

But despite this convergence of interests, a series of obstacles place a limit on improvements in Sino-Indian relations. Most important is the intractable border dispute. Eight rounds of talks have been held with the aim of resolving this issue, the most recent in November 1987, but little concrete progress *has been made*.

Areas of dispute are to be *found in all three sections of* the border. The most bitter *argument* concerns the McMahon line in the eastern sector which was drawn up at the Simla conference of 1913-14, between British India, China and Tibet, and which runs from Tibet to Bhutan.

China refuses to accept the McMahon line and claims an area comprising 34,000 square miles to the south of it – in effect the entire Indian state of Arunachal Pradesh. When the two sides argued their respective cases at the seventh round of border *talks in 1986*, Peking warned of "unpleasant incidents" if India refused to withdraw its troops from areas north of the boundary claimed by China.

China has long argued that the border problem is so difficult that it should be set aside while efforts to improve relations concentrate on increasing trade and tackling other bilateral issues. But India has insisted on progress on this central issue as a condition for improvements elsewhere.

Because the 1962 conflict is still an emotive issue in domestic politics, *it is difficult for Mr* Gandhi to make concessions on this point. Many Indians feel that the Prime Minister has already gone too far by accepting an invitation to Peking without a settlement of the boundary on India's terms.

Despite a convergence of interests, a series of obstacles place a limit on improvements in relations

To overcome the divergence between the Chinese and Indian positions, a compromise treatment of the issue is expected to emerge during Mr Gandhi's visit. Formally, he will insist that the border issue is vital but it will then be referred to a working group of *officials for examination*. By so doing, Mr Gandhi hopes to *placate critics at home*.

At the same time, by not making the border the centrepiece of the visit, he will be conceding the Chinese view that the issue should be set aside while others are taken up. Two rounds of preparatory talks between Indian and Chinese officials have been held in Peking in recent weeks, and a compromise along these lines is believed to have been worked out.

While significant progress on the border issue is unlikely, important preliminary steps may be agreed. In particular, there will be discussion of the proposal that links should be established between Chinese and Indian commanders on the border so that the not infrequent skirmishes are avoided.

Obstacles to improved ties are also posed by the close relationship between Peking and Islamabad, illustrated by the fact that the first official visit of Miss Benazir Bhutto, Pakistan's new Prime Minister, will be to Peking.

China has been careful not to offend Pakistan in its dealings with India. Before the last round of border talks, for example, the leader of the Chinese negotiating team made a special visit to Islamabad to inform officials of China's position. But the recent tensions between India and Pakistan will reduce China's flexibility.

Such obstacles imply that any rapid rapprochement between India and China is unlikely. But the gradual thawing of ties dictated by the interests of both parties should receive an important boost from Mr Gandhi's visit. As a result, the emerging trend towards regional stability will take another step forward.

Vanuatu plunged into new crisis

By Chris Sherwell in Sydney

THE South Pacific island state of Vanuatu, previously the Anglo-French condominium known as the New Hebrides, has plunged into a constitutional crisis after months of political turmoil.

The crisis follows a decision by Father Walter Lini, Prime Minister since independence in 1980, to ignore the dissolution of parliament ordered on Friday by President Ati George Sokomanu.

The figurehead President's move came in the wake of a controversial series of by-elections which Mr Barak Sope, Father Lini's political rival, decided to boycott.

The President yesterday escalated the crisis further by swearing in a five-member interim government headed by Mr Sope to take the country into a general election in February.

Father Lini's position now hinges on the continuing loyalty of the police and armed forces. He claims the President has no power to dissolve parliament or appoint a new government, and accuses him of behaving illegally and unconstitutionally.

In this he has received support from the Australian government, although Canberra has also expressed concern at his decision to expel the visiting correspondent of Radio Australia, the prime outside source of information for Vanuatu's 135,000 population.

Mr Sope has said he will seek outside help if the armed forces do not support him - a prospect which could lift an internal crisis into a regional one.

Last week's by-elections followed Father Lini's expulsion of 18 opposition members of parliament. They had refused to attend parliamentary sittings after Father Lini sacked Mr Sope and other rebel government MPs in a dispute over his leadership.

Father Lini, an Anglican priest, heads the Vanua'aku Pati. Mr Sope, after his sacking, formed his own Melanesian Progressive Party and linked up with the opposition Union of Moderates Party.

Growth in Japan's trade surplus may spark fresh disputes

By Ian Rodger in Tokyo

A SERIES of international trade disputes may be in the offing because of the renewed growth trend of the Japanese trade surplus.

Economists have been surprised by strength of the trend, confirmed on Monday when the Ministry of Finance reported a 37 per cent rise in the customs-cleared trade surplus in November to $6.5bn (£3.6bn). Exports rose 15.5 per cent to $22.6bn while imports grew only 13.4 per cent to $16.1bn.

The import figures were depressed by low oil prices and exports boosted by high shipments *of capital goods, but the* striking feature is the growing competitive strength of Japanese high technology industrial and consumer products, despite the sharp rise of the yen.

"The devaluation of the dollar has not changed things a bit," one economist said this week. "It has just given the Japanese an incentive to move up-market."

The Government has acknowledged it will not be able to meet its commitment to reduce the trade surplus, in the *current fiscal year to March 31*, from last year's $94.3bn figure. Rumours that Government economists preparing next year's *forecast have produced* a figure of $100bn have been denied.

If the growth trend does not abate soon, governments of the main countries trading with Japan can be expected to launch new political offensives, demanding it take more steps to open its markets to imports.

"Japan is going to be faced with demands for more short-term action," one Western diplomat predicted. The pressure is already rising. Taiwanese business leaders on a visit to Tokyo this week demanded the Japanese take steps to cut the $5.7bn annual bilateral trade surplus.

Mr Hajime Tamura, Minister of International Trade and Industry, *said this week* the Government would have to take new measures to reduce its trade surplus. Mr Gaishi Hiraiwa, chairman of the prime minister's economic council, called for steps to stimulate domestic demand.

However, many Japanese politicians and officials will be unreceptive to more demands from abroad. They will argue that Japan has done its part to promote the adjustment of trade imbalances. The problem, they will say, lies with importers not trying hard enough to penetrate Japanese markets.

They will also point out that Japan's economy is operating at a very high rate, so any further stimulus would risk causing inflation. They believe the trade surplus trend will reverse in the latter part of *next year*.

Foreign governments will have difficulty focusing their attacks. Few tradeable products are still overtly and specifically protected in Japan.

However, economists agree there are still many substantial obstacles to companies that want to export to Japan, notably a complicated distribution system and a strong sense of loyalty among Japanese people to domestically produced products and services.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Oct.'88	Sept.'88	Aug.'88	Oct.'87
US	19,603	18,015	18,017	14,585
UK	39,332	38,698	38,813	33,240
W. Germany	54,512	52,705	53,762	60,967
Japan	85,502	84,446	83,606	67,549
Belgium	7,962	7,564	7,542	7,972
Netherlands	14,345	13,128	12,962	13,284
Italy	29,618	26,893	28,307	22,217
	Aug.'88	July '88	June '88	Aug.'87
France	26,320	27,044	26,736	28,615

Source: IMF

Minister quits as move to help De Mita backfires

By John Wyles in Rome

ITALIAN premier Mr Ciriaco De Mita returned to Rome from the US at the weekend to confront a political storm of a nature so unpredictable that it has precipitated a rare event in Italy - a ministerial resignation.

Mr Angelo Sanza, a close *personal friend of the prime* minister and one of his undersecretaries, has resigned after trying, and failing somewhat *pathetically, to defend his* master from a well-aimed press campaign.

Mr Sanza, who was responsible for liaising with the secret services, claimed a week ago that a right wing fringe of intelligence officers were orchestrating charges that Mr De Mita and his Christian Democratic party were profiting from funds allocated for earthquake *reconstruction*

Mr Sanza was rebuked by a parliamentary *committee on* Thursday when he failed to *substantiate his claims* - which he said he had made "as a Christian Democrat politician, not a member of the government."

Taking charge himself of the secret services, the prime minister last night accepted Mr Sanza's resignation which was demanded by his coalition partner, the Socialist Party.

Afghan rebels ready for more peace talks

AFGHAN resistance forces say they are ready for further peace talks with Soviet officials but add that both sides must put forward specific proposals, writes Christina Lamb

Professor Burhanuddin Rabbani, chairman of the seven *party resistance alliance*, criticised the Soviet side for still insisting at talks in Saudi Arabia on the participation of the present regime in a future Kabul government, and for failing to come up with new suggestions.

He was speaking on his return from the first high-level talks between Soviet officials and the Mujahedin in the nine year conflict.

Papandreou hits at press on 'anti-government plot'

By Andriana Ierodiaconou in Athens

DR ANDREAS Papandreou, the *Greek Socialist Prime Minister*, has accused the press and dissenting *members of his* administration of involvement in a plot masterminded by unidentified "domestic and foreign circles" to bring down his Government.

The Greek Socialists' popularity has plunged since October amid rumours and allegations of financial corruption. Addressing the nation 24 hours before a critical parliamentary vote on the 1989 budget, scheduled to take place late last night, the Prime Minister accused the press of "vulgarity" and of "daily lies ultimately intended to undermine *democratic institutions.*"

Dr Papandreou conceded *that Greece's political crisis* had transformed the vote into a *vote of confidence*

He savagely attacked ministers *who have resigned or* been sacked from the cabinet in recent weeks, *after speaking* up against corruption.

"Their actions are deliberately planned. No-one who leaves the ship now is absolved," he said.

Dr Papandreou called on Socialist deputies to support the budget and said the Government would resign if it failed to secure a majority

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Lawson says slowdown 'as hoped'

By Ralph Atkins, Economics Staff

MR NIGEL LAWSON, the Chancellor of the Exchequer, said yesterday that the British economy was slowing exactly as he had hoped and re-asserted his determination to avoid a slide in the pound, even at the expense of export growth.

Mr Lawson said rises in the underlying rate of inflation and earnings had been exaggerated and that the Government's long-term objective was a zero rate of inflation.

Speaking on television, he said the effects of tightening monetary policy through higher interest rates were coming through.

"So far all the signs are that the economy is slowing down in just the way that I'd hoped it would," he said.

The Chancellor said retail sales growth had moderated and the housing market had cooled. He said monetary policy would be kept as tight as necessary to control inflation with interest rates being raised as needed.

Mr Lawson said preventing a sterling depreciation was "absolutely essential as part of the battle against inflation" although he said, "there are bound to be slight fluctuations from time to time."

On the outlook for inflation, Mr Lawson said he expected it to rise "a little bit more" before falling, but there had been a great deal of exaggeration about the underlying trend.

"The rise in the underlying rate of inflation has been very, very little indeed, over the past four or five months it's scarcely risen at all," he said.

He said that export growth was likely to improve next year as companies switched some capacity from satisfying domestic demand to export demand.

He admitted that exporters could face "a difficult job" with a strong pound but was confident strong growth could be achieved.

However, he said: "I don't believe for one moment that it would be right to devalue the pound or allow the pound to take a dive simply because exports weren't rising as fast as the forecast which I published in the Autumn Statement."

The statement, which outlines the Government's spending plans, was made in early November.

The Chancellor estimated that UK's sustainable economic growth rate was about 3-3½ per cent – a higher rate than had ever previously been sustainable. Growth this year would reach or exceed 4½ per cent, he said.

The Government's objective, he said, was to eventually get inflation out of the system altogether. "It'll take a very long time to get there. . . the important thing is to be moving in the right direction," he said.

Mr Lawson said the Government needed to build into people's thinking "a total horror of inflation".

It was the experiences of price rises in the 1920s and around the second world war that had given West Germany a low-inflation "psychology", he said.

Interest rate effects, he said, take time to come through but were quicker acting than other measures. He added that the fall in interest rates on home loans earlier this year had "very little impact" on borrowing whereas the subsequent increase had been substantially greater.

He emphasised that it was the task of companies to resist higher pay settlements, but said that the acceleration in underlying earnings growth in recent years had been modest.

"During a period of five years of unparalleled growth the increase (in average earnings growth) has been only of the order of 1¼-1½ per cent. . . it would have been better if it hadn't gone up at all but it's been a very slight increase and it's been counteracted to some extent by an unprecedented growth in productivity."

● Michael Cassel writes Labour is to vote against the uprating of benefits and pensions, to be announced in the House Commons tomorrow, in protest at the Government's decision to freeze child benefit for the second consecutive year.

Retirement pensions, unemployment benefit, maternity allowance and family credit are due to rise by 5.9 per cent from next April, in line with September's inflation rate.

Labour intends, in spite of fear that its stand will be misinterpreted, to vote against the entire package because of what it sees as the Government's decision ultimately to kill off child benefit by no longer uprating it.

Kinnock rejects pacts, vote changes

By Michael Cassell, Political Correspondent

MR NEIL KINNOCK, leader of the opposition Labour party, yesterday reaffirmed his belief that his party will win the next general election outright, without recourse to making pacts or the need to throw its weight behind the case for proportional representation.

Mr Kinnock acknowledged that Labour remained in a poor electoral position, more than five years after his election as leader. He said the party was not complacent about its problems and neither was it prone to panic.

But he again rejected the idea of electoral deals with other parties, now being suggested by some senior Labour figures. He also dismissed renewed calls from within his own party for the introduction of proportional representation as ill-thought out and warned that the system could hand a disproportionate amount of influence to minority parties.

Some of Mr Kinnock's remarks, made on an independent television programme yesterday, suggested that he has not ruled out the possibility of some form of PR. Later, however, close advisers emphasised that while he did not wish to dismiss the issue, Mr Kinnock sees no easy solutions to some problems.

Mr Kinnock said PR did not represent "an easy mathematical way of addressing the political phenomenon of extremism as practiced by Mrs Thatcher's Government."

He added: "If, by changing the system of election, we could ensure a perpetuation of justice and reasonability in government, there would not be a single argument against PR. The problem is, it produces no guarantees, or even the additional prospect of getting a government that would be favoured in practice by the majority of the people, governing in the direction they want.

"That is what has got to be worked out, so far as PR is concerned. Then, ultimately of course, the people will decide by the support they give the idea."

The Legal Column

Headhunters are making 'mobility' the buzzword

By David Churchill

EXECUTIVE search consultants are fast becoming a fact of life for lawyers, although some in the legal profession still regard them as an invention of the devil.

So says Mr Stephen Bampfylde, of Saxton Bampfylde International, a company euphemistically known as an executive search consultant but which belongs to a genre more commonly referred to as "headhunters."

Changes which seek to make the legal profession more competitive in the 1990s – allied to other developments such as the impact of 1992 on the European Community – have made legal firms sharply aware of the need to attract top-calibre staff at all levels.

Yet the demand for lawyers exceeds supply and this is where recruitment specialists have found a niche. They will – for up to 30 per cent of the starting salary – comb the profession to find the right lawyer for the right job.

For less – say 17.5 per cent – they will "place" lawyers with itchy feet in jobs elsewhere in the profession or industry.

Mr Vere Fane, chairman of Room Twelve, an executive search company specialising in the legal profession, said: "Placement and executive search in the legal profession is beginning to take off and can be likened to the demand for City professionals in the days before Big Bang." The company, which has concentrated on this function for a decade, was taken over a year ago by the DAL Group of executive search companies.

Headhunting has been a daily fact of life in most New York law firms for many years. But, as Mr Bampfylde points out: "Partners in UK legal practices have felt shackled to their firms and until recently, movement of senior people from one law firm to another would have been unthinkable." He adds, however, such loyalty is fast diminishing: "Mobility is the buzzword and, as firm-hopping becomes more common, the days may not be far off when lawyers, like admen, are only as good as their last job."

Mr Bampfylde stresses the need to work closely with legal firms to establish their needs, rather than simply try to fit a lawyer into a job which is part of a badly thought-out structure. "It is important to get the job-description right," he says.

A typical search would encompass about 120 people, found usually by intensive research and word-of-mouth recommendations. The client, however, is usually only presented with three lawyers to choose from.

What do legal firms think about using such a method to find senior staff?

Mr Peter Metcalf, a partner in commercial solicitors Hammon Suddards in Leeds and Bradford, said: "We find the services particularly beneficial when attempting to recruit personnel in highly specialised niche legal areas, where potential candidates are often more reluctant to respond to advertisements."

Mr Martin Hulls, partner in Nottingham-based solicitors Shacklocks, points out: "Being in the provinces we now find it impossible to recruit without using professional recruitment agencies." But, he adds: "The standard of candidates which agents send through are often very poor."

Mr Julian Moffatt, partner in Ingledew Botterell of Newcastle, agrees: "We have rarely succeeded in recruiting anyone through a consultancy when we have gone to them with a particular vacancy that needs filling. However, where they are useful is in sending through details of people that they have on their books at that time, from which we have often recruited, particularly in specialist areas."

Mr Fane of the Room Twelve agency believes a number of law firms are poised to emulate their City counterparts and use headhunters not just for individuals but to locate and recruit whole teams. "This will give some firms an instant capability in particular sectors which will make them more competitive," he points out.

★★★THE annual starting salary paid to articled clerks in central London last year was £10,300, nearly twice the recommended minimum for the provinces.

This emerges from figures released by the Law Society in its annual statistical report.

The minimum starting salaries as laid down by the Society in the year starting August 1, 1987 were £6,600 in Inner London, £6,100 in Outer London, and £5,200 elsewhere. But only one in every five articled clerks was on the minimum, according to the Society's figures.

The average for England and Wales as a whole was £7,100, ranging from an average £5,200 in Wales to central London's £10,300.

The figures also show the increasing importance of women in the profession. Last year the number of women passing the solicitors' final examination was 51 per cent of the total.

Moreover, the rate at which women achieve partnership in private practice is accelerating and the report indicates that the tendency for women to give up their practising certificates early in their careers is declining.

★★★THE growth rate of legal firms is highest outside the south-east and outer London, according to an independent study of 170 solicitors and their practices.

These surprise findings, revealed by the Centre for Interfirm Comparison, show that the growth rate over 1987 and 1988 in terms of revenue earned was highest in the Midlands, at nearly 30 per cent.

This was followed by north England, London, the south-west, and the midlands, all with growth rates of over 25 per cent. In the south-east and outer London, however, growth was below 20 per cent.

Mr Michael Moffat, project director of the Centre, points out that profits have increased much less than revenue. "In many businesses a 25 per cent growth in revenue would produce a proportionately higher growth in profits," he says. "But in the study, profit per partner increased by only about 10 per cent last year."

CBI warns on shortage of IT expertise

THE growing manpower shortage among Britain's information technology companies could leave the industry dangerously exposed to international competition, says a report sponsored by the Confederation of British Industry, writes Terry Dodsworth.

Demand for professional staff will exceed supply in the UK for the forseeable future, the report adds. In the second half of the 1990s the industry will also be hit by the reduced numbers of young people going through the school system.

The warning reinforces similar points made in last week's House of Commons Trade and Industry committee report on information technology, which suggested that a Government working party should be set up "as a matter of urgency" to increase training courses in the subject at universities and polytechnics.

Act may force Abbey payout

By David Barchard

A FLAW in the 1986 Building Societies Act threatens to force Abbey National, the second largest UK building society, to make heavy payments to its members in the run-up to its stockmarket flotation, planned for next summer.

The wording of the Act makes it possible for investors to manipulate their accounts and pick up compensation intended for members unable to vote on the flotation.

The problem stems from a clause in the Act intended to protect the rights of members who hold accounts with less than £100 or who are under 18 years old at the time of incorporation. But it also applies to those who close down their membership in the interim period between the qualifying date and the flotation.

The qualifying day is the date, still to be announced by Abbey National, on which a member must have £100 or more deposited with the society to be able to vote on incorporation. The society is at present a mutual group, meaning that it is owned by its depositors, or members.

Compensation for the holders of large deposits is likely to be substantial. Clause 4 of Section 100 of the 1986 Act stipulates that recognised members of the society who cannot vote at the extraordinary general meeting on incorporation will receive between 4 and 5 per cent of their deposits on the qualifying day as compensation.

There is thus the possibility which building society officials refer to in hushed tones as "the black hole" – a huge flight of large funds from an incorporating society which would be simultaneously obliged to strip its capital reserves to reward the defectors.

However, any investor should bear in mind that those who invest £100 with Abbey National before the qualifying date and do not withdraw are set to receive a free handout of shares. It is being suggested that this will be worth around a flat £200 per member, irrespective of the amount deposited.

If the qualifying date has not yet been passed, and is for example this December 31, then anyone not already an Abbey National member who opens a £100 account before then could collect free shares to twice that value. Equally, anyone opening an account on behalf of a minor before the qualifying date is likely to pick up a cash bonus of 4 or 5 per cent. This depends on the flotation going ahead as planned.

Last night Abbey National refused to be drawn on the problems arising from the Act or to give any hint of when the qualifying date might be.

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UK NEWS

Industrial gas user group fights fixed price schedule

By Steven Butler

A LARGE group of industrial gas consumers is objecting strongly to proposals that British Gas should publish a fixed schedule for gas prices, as recommended by the Monopolies and Mergers Commission in a report that accused British Gas of abusing its position as monopoly supplier to industry.

The Energy Information Centre, in a poll representing 100 of its members who account for about 16 per cent of the industrial gas market, or 1bn therms a year, found that nearly all members supported a continuation of negotiated prices with British Gas.

Results of the survey are to be presented today at the House of Commons to the Select Committee on Energy.

The findings of the survey are likely to prove highly controversial because they strike at the heart of MMC measures to encourage more transparency and greater competition in energy markets.

A price schedule was seen by the MMC as a way to prevent discriminatory pricing, in which British Gas charged higher prices to consumers unable to burn alternative fuels.

Although members of the EIC opposed British Gas's discriminating against members on that basis, they argued that they should otherwise be free to negotiate for total gas requirements. A majority of members said that were British Gas to publish gas schedules, independent gas suppliers would have less incentive to offer competitive prices. Competitive oil prices might also be pushed upward.

A summary of the survey said: "It has been statutorily recognised hitherto that consumers with different characteristics could negotiate appropriate prices and it is clear that the majority of members are anxious that this should continue in order to preserve a competitive fuel pricing regime."

The EIC said, however, that its members otherwise broadly supported the thrust of the MMC report, which is aimed at encouraging greater competition in the gas market.

The EIC survey found that the most important barrier to greater competition was the reluctance of gas producers to compete against British Gas in the UK market.

As further impediments to competition the survey cited restrictions on importing gas from the Continent and the ability of British Gas to purchase the entire output of new fields.

British Midland seeks routes

By Michael Donne, Aerospace Correspondent

BRITISH Midland Airways, part of the Airlines of Britain Holdings group in which Scandinavian Airlines System is taking a 24.9 per cent stake worth £25m, will make applications to the Civil Aviation Authority early in the new year for new short and long-haul international routes.

They have been planned for some time by the airline as part of its overall long-term expansion plans, and are the result not of the SAS deal now agreed but of winning additional take-off slots at Heathrow at the recent meeting of the scheduling committee of the International Air Transport Association.

Nevertheless, the £16.7m new direct capital investment by SAS in the Airlines of Britain Holdings group will help to meet the costs of mounting the proposed new services (the other £8.3m out of the overall £25m goes to directors of ABH for some of their shares).

British Midland already flies to Amsterdam from Heathrow, but also has had outstanding for some time with the Civil Aviation Authority a number of bids for other European scheduled routes from that airport, including Brussels, Dublin, Frankfurt, Geneva, Keflavik, Malaga, Milan, Paris, Rome, Palma, Rotterdam, Strasbourg and Zurich.

Some of these routes are flown by other members of the ABH group, including Brussels and Paris, flown by London City Airways from the Docklands Airport. It seems likely that the new plans will include both some of the outstanding applications, and some additional routes.

The details are still being worked out and will be discussed in depth with SAS in the next few weeks, before the revised bids are submitted to the Civil Aviation Authority.

British Midland expects British Airways, its main rival at Heathrow, to object, while it is also possible that other airlines such as Air Europe and Dan-Air, which fly scheduled services to the Continent out of Gatwick, will also lodge either objections or representations.

That is because the UK's overall share of available traffic on all international routes is still governed by existing bilateral air agreements. Although some of these, for example with the Netherlands, have been liberalised to various degrees, there are others, such as with the US, where governments still vigorously defend their own airlines' rights.

Study of economic data 'being hindered'

By Ralph Atkins
Economics Staff

POOR COMMUNICATION between the Treasury and the Central Statistical Office was a root cause of the recent fall in the quality of UK economic statistics, said a report issued today by Greenwell Montagu, the securities house.

Inconsistencies in official statistics in the past three years "have grown to such an extent that interpretation of data by government and analysts is now severely hindered."

Better-quality data were clearly necessary for the Government and outside users. Government policy appeared to entail saying "the economic reality of the country is shrouded in misleading data."

The current Whitehall review of statistics was likely to conclude that the Treasury and CSO should have a closer relationship and a more flexible approach to statistics.

The report noted that the Government planned to publish balanced national accounts that would amend data so as to remove inconsistencies. The results, expected by March, were likely to show a much smaller current-account deficit for this year than did present figures.

Balanced accounts were likely to show higher incomes in the personal sector and higher company spending than previously thought.

Mr Simon Briscoe, the report's author, a former Treasury economist, said balanced accounts would be highly subjective but could affect Budget decisions dramatically.

His report said the difficulties with official statistics were deep-rooted. It concluded that present government cost-cutting activities were not wholly to blame.

Scrimgeour gets itself into shape

David Lascelles continues a series on securities firms after Big Bang

EMBLAZONED across the wall of Citicorp Scrimgeour Vickers' dealing room on London's South Bank is the firm's mission in large black letters. "Our aim: to be the best, most exciting and most successful institutional equities firm." It used to have the words "in the UK" on the end, but these were thought too parochial so they were chopped off.

The message looks quite upbeat for a firm that has seemed – to the outside world at least – to be in a state of almost permanent upheaval this year. However, Mr John McFarlane, managing director, claims that it has all been to the good. As the City braces itself for a big crunch to follow Big Bang, he predicts that other firms will have to go through the same agony of staff cuts and plunging morale. "But here," he says, "it's all been done."

CSV has certainly suffered more than most, so much so that its ability to remain as a market maker and broker in equities has been seriously questioned elsewhere in the City. A stream of prominent people has left and the management has had to be strengthened.

In August, CSV was at the forefront of the price-cutting war that broke out in the equity market as dealers narrowed their spreads in what many people saw as a desperate move to raise market share. But because other houses immediately followed, the cuts brought no one a lasting advantage and quickly swelled dealers' losses, including CSV's.

Citicorp, CSV's New York banking parent, did not help its offshoot's market standing by terminating its London-based gilt-edged dealership in July. In recent weeks it has also shut down part of CSV's Asian equities business and pulled out of research and market making in Tokyo.

The moves raised doubts about Citicorp's commitment to the UK securities business and its readiness to keep bailing out CSV's losses. However, Citicorp has renewed its support for the firm with a fresh capital injection of $80m (£44m).

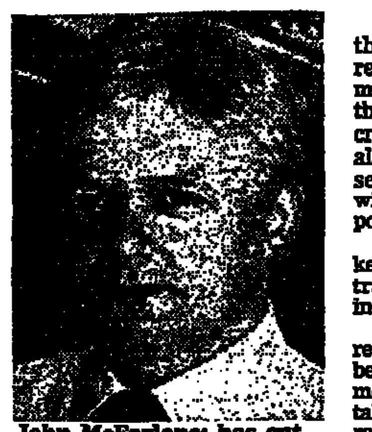
Citicorp created CSV in 1985 by combining Scrimgeour Kemp-Gee, one of the City's newly successful stockbroking firms, and Vickers da Costa, a firm specialising in the Far East markets. The intention was to build a worldwide equities group as part of Citicorp's far-reaching strategy of being "all things financial to all men," but the collapse of the securities markets and mounting doubts about the global approach led to big reappraisals and cutbacks.

A detailed study on the structure and prospects of the UK equities market suggested that CSV could be among the survivors, provided it took steps to cut costs and strengthen its sales and research capabilities.

That is why Mr McFarlane, a Scotsman who arrived from Citicorp as part of the management changes last summer, has instituted drastic cuts. The total number of staff, which used to be 1,000, has been slashed to just over 400. Computer capacity, which was designed on highly optimistic expectations of business growth and turned out to be several times larger than needed, has been reduced, and the back office has been moved out to Lewisham in south-east London. The in-house cost of executing bargains has been cut by between a fifth and third.

As a result, total costs have been brought down from about £60m a year to about £30m and further cuts are planned to reduce them to £25m to £30m.

CSV estimates that the equity market at the moment is generating about £300m to £350m a year in revenues and commissions, down from



John McFarlane: has cut total costs in half

£550m in the good times. According to Mr McFarlane, its share of that market is about 4 to 5 per cent. The aim is to get it well over 10 per cent, if possible up to 15 per cent.

Those targets are seen by other market observers as enormously ambitious, particularly as CSV is simultaneously trying to reduce its spending, but Mr McFarlane argues that they can be achieved with a clear strategy that aims at the top tier of the market.

If they are reached, Mr McFarlane predicts that CSV will break even and possibly make a profit next year. If things go exceptionally well, "there's a fighting chance," he says, that CSV will meet Citicorp's performance target of a 20 per cent return on capital.

"We don't need a bull market to make a profit now," says Mr McFarlane.

The intention is to aim the operation more directly at the upper end of the equity business. Starting from today, CSV is reducing the number of stocks in which it makes markets from 600 to 400. They will consist of the top 250 stocks that account for 95 per cent of market turnover plus 50 to 100 selected growth company stocks and 50 stocks of broking clients.

That reflects CSV's belief that in both dealing and research, it is the ability to master the blue-chip sector that gives a house muscle and credibility. However, CSV will also stay in the growth stock sector because of Citicorp's wider interest in building up potential banking clients.

On the sales side, CSV's marketing effort is being concentrated on the UK's top 150 institutions.

All through the turmoil of recent months CSV has also been striving to preserve staff morale with slogans and pep talks. Dotted round the dealing room there are notices similar to traffic signs proclaiming "No negative self-talk." Staff have also been promised a profit-sharing plan – when there is some to share.

But ultimately, CSV's fate must lie in Citicorp's hands.

By closing the gilts operation, Citicorp has already demonstrated its impatience with losses, even in a business that is arguably closer to its core banking and debt-based operations than equities; and the dreams Citicorp once had of building a global equities capability have faded.

On the other hand, the fact that banks are barred by law from the equities business in the US means that they must pursue that market abroad if they are to build up their expertise and market share.

CSV is the largest of Citicorp's overseas' equities operations (there are others on the Continent and Australia), and officials say it performs a "laboratory" role for the group ahead of the day when US banking law is reformed.

Previous articles in this series: Shearson, Tuesday, November 8; Lloyds Bank, Monday, November 14; BZW, Monday, November 21; Quilter Goodison, Monday, November 28; Alexanders, Laing & Cruickshank, Monday, December 12; Kleinwort Benson, Friday, December 16.

US approves Airbus A-320 for service

By Michael Donne

THE European Airbus A-320 twin-engined short-to-medium-range jet airliner has been cleared by the US Federal Aviation Administration for fare-paying passenger service in that country.

The first US customer is North West Airlines, which will start services with the aircraft next spring.

The A-320's US approval follows the European clearance for the Series 100 model last February, and clearance for the more advanced and longer-range Series 200 in November.

The A-320 is already in service with several airlines, including Air France, Air Inter, Ansett of Australia and British Airways. Firm orders for the A-320 now stand at 410 aircraft from 23 customers, with 16 aircraft delivered so far.

The aircraft delivered to date are all powered by the Franco-US (Snecma-General Electric) CFM-56 engines.

National Savings deficit of £235.4m in November

By David Barchard

NATIONAL SAVINGS recorded another exceptionally poor performance in November, the latest of several this year, with a net deficit on funding of £235.4m, according to monthly returns issued yesterday.

Although the seasonal upturn in consumer spending may have played a part, the deficit reflects the continuing decline of National Savings and the steady cut in its significance since the Government entered fiscal surplus.

The organisation has been criticised for allowing its rates to lag behind those of the rest of the savings market.

The November figures show savers continuing to move funds from fixed-interest National Savings Certificates, which showed a deficit of £143.4m on the month. However, income bonds drew a net £41.5m, premium bonds a net £16.4m.

National Savings' total contribution to government funding in the first eight months of the year was £638m, 54 per cent of that in the first eight months of financial 1987. Total investment in National Savings is now £37bn, compared with £35.5bn at the end of November last year.

Last week National Savings announced that it was raising its rates on investment account, income and deposit bonds because of the recent rise in the banks' base rate to 13 per cent.

From December 23, interest on investment account will rise from 10 per cent to 10.75 per cent. From January 22 interest on income and deposit bonds will rise from 10.75 per cent to 11.5 per cent.

Next month National Savings will launch a capital bond, its first new product for three years, offering a guaranteed return over five years. It is intended to replace deposit bonds.

Toy retailer may restart The Post after £6.8m lost

By Raymond Snoddy

CELEBRITY GROUP Holdings, a private company in publishing and toy retailing, last night expressed interest in taking over The Post, Mr Eddie Shah's national newspaper, which ceased publication at the weekend.

Mr Russell King, chairman of Celebrity, which publishes mostly children's magazines and includes Zodiac Toys, said he was very seriously interested in acquiring The Post as a going concern. He planned to talk with Mr Shah and with the administrator being brought in to settle the finances of the newspaper, which has cost investors £6.8m.

Eddie Shah: Messenger papers sold to Reed

Mr King said that if the numbers made sense he would aim to resume publication before Christmas. On The Post's first day it sold 500,000 copies, half the print run, but by last week the circulation was stable at little more than 100,000.

"Speed is of the essence," said Mr King, who says his company will have a turnover of £37m to £40m this year, 75 per cent of it from publishing.

Earlier, journalists on The Post said they were looking for interim finance to keep the paper coming out while new owners or serious backers were sought.

Yesterday Mr Lloyd Turner, The Post's editor, said he wanted to bring the paper out again by Christmas Eve if possible. He hoped to persuade new investors of the value of the newspaper, the first national daily to be produced by desktop publishing. He said it was being produced at a third *the cost of other national* newspapers.

Yesterday Mr Shah said the present team could use his buildings and presses without charge while finance is sought.

The Post's founder said he had been in touch with Associated Newspapers, Mr David Sullivan's Sunday Sport and the Al Fayed brothers over The Post's future.

He also announced, at the weekend, the sale of his Messenger chain of free and paid-for local weekly newspaper titles to Reed Interntional for £25m.

Mr Shah, founder of Today and catalyst of the revolution in technology, industrial relations and costs in Britain's national newspapers, is bowing out of the newspaper industry.

He said: "I am relieved to be getting out of a business I've never felt at home in and into something – television – that my basic training was all about."

His 20-title local newspaper chain was built up over the past 15 years, has annually a £13m turnover and more than £3m profits. Mr Shah has sold only the titles and will keep assets such as buildings and printing presses.

Yesterday he conceded that his main interest had been in how to produce newspapers and how to make money from them.

"I never looked at the content because I wasn't interested. Television, however, fascinated me," he said.

Mr Shah's Messenger Television has made a £2m drama series, Capstick's Law, for Granada Television, to be shown on the national ITV network by London Weekend Television in the spring.

Yesterday he said his Messenger Group funded 46 per cent of The Post. The rest came from RIT Capital Partners, which is an investment trust run by Jacob Rothschild Holdings, and Chelsfield, a private investment company.

Government to announce plan for egg producers

By Bridget Bloom and Michael Cassell

MR JOHN MACGREGOR, the Agriculture Minister, will today announce details of the Government's proposals to provide financial help to egg producers after the slump in sales caused by fears over the *spread of salmonella.*

The plan to introduce a short-term buying-in scheme was hurriedly announced in the Commons on Friday by Mr MacGregor, after the resignation of Mrs Edwina Currie, the junior health minister, who had claimed that most of the country's egg production was infected.

Mr MacGregor spent the weekend in talks with officials and representatives of the egg industry, formulating the details of the scheme. He is expected to consult cabinet colleagues this morning, particularly on the estimated cost of the rescue plan.

Ministry of Agriculture officials were last night refusing to comment on the possible cost of the scheme, which will partly depend on how quickly the Government's intervention can restore equilibrium to the market and public confidence in the safety of eggs.

In their talks with the Government, the egg producers have been particularly keen to ensure that prices paid for the surplus will help to cover the losses of the past fortnight as well as those forthcoming.

The industry is also seeking compensation for birds that have already had to be slaughtered and for a programme of slaughtering.

Sir Richard Body, the Conservative MP for Holland-with-Boston, added to the controversy at the weekend by claiming that a 1981 parliamentary order regulating the processing of animal feedstuffs – a possible cause of salmonella in eggs – was watered down following pressure from the egg industry.

Sir Richard is to ask the Commons select committee on agriculture to investigate the allegations and he has also tabled a question to Mr Kenneth Clarke, the Health Secretary, about the claim.

Editorial Comment, Page 16

Bets go odds-on for a monopoly inquiry

David Churchill writes on the merging of Mecca and William Hill bookmaking

IT WOULD be a fair bet to assume that officials from the Office of Fair Trading will be thinking long and hard over the Christmas holidays about Britain's £4bn-a-year high street bookmaking industry.

Their attention will be focused on the £331m sale last Friday by Sears Holdings of its William Hill betting shop chain to Grand Metropolitan, owners of Mecca Bookmakers.

Together the two betting shop chains will create a national bookmaking business with 1,701 outlets, only 15 fewer than the outlets operated by Ladbroke, the market leader.

The Mecca/Hill combine will, according to GrandMet, have some 16.5 per cent of the betting shop business in the UK. Ladbroke, however, will still have the edge with 16.7 per cent of the market, with Coral (owned by the Bass brewing group) third with just under 8 per cent.

The precision with which GrandMet has emphasised its second place to Ladbroke comes not out of any false sense of modesty from one of Britain's largest leisure combines which is currently embroiled in a £3.1bn takeover bid for the US foods and restaurant group Pillsbury.

Instead, GrandMet is concerned about whether the OFT officials who advise the Trade and Industry Secretary on corporate takeovers will decide to refer the deal to the Monopolies and Mergers Commission for closer scrutiny to determine the public interest.

GrandMet's view is that a reference to the commission is not justified, since the merged bookmaking shop chain will not have a dominant position in the market (more than 25 per cent), nor will it be the market leader. In fact, the argument will be that a combined Mecca/Hill operation provides more effective competition to Ladbroke's market leadership.

Its concern, however, is intensified by the fact that the *deal is unconditional, at Sears'* insistence. Sears, which is anxious to pursue its other retail, home shopping, and property activities, did not want the threat of an investigation or adverse commission ruling hanging fire for several months.

Moreover, Sears had several other offers waiting in the wings and accepted the GrandMet bid only because it was the highest.

Both companies are well aware, however, of the difficulties created in the autumn for Thomson Holidays when its unconditional acquisition of Horizon Holidays from Bass was subsequently referred to the commission. That report, expected early in the new year, might leave Thomson unable to integrate the two companies or even forced to sell Horizon to a third party.

The reason GrandMet is particularly worried about the William Hill buy is the OFT's long-standing interest in the British off-track betting business.

Earlier this year, it decided that there was insufficient evidence of any abuse of market power by the big four betting *shop chains to justify an* investigation by the commission under its monopoly terms of reference, even though the four chains accounted for nearly two thirds of the £4bn annual bookmaking turnover. Small, independent betting shops had complained to the OFT that they could not compete on equal terms with the large chains.

As in the case of the holiday industry, the OFT may decide that the best way to get to grips with a sector such as bookmaking is through the careful scrutiny of a Commission inquiry.

What such an inquiry might uncover, however, would be an industry which – like so many others in the retail sector – has gone through rapid structural change over the past three decades.

It was the 1960 Betting and Gaming Act that licensed off-track betting in the UK, opening up a legal market for punters to place bets (primarily on horse racing) away from the course.

Mr William Hill, a legendary on-course bookmaker, was less enthusiastic about the new off-track betting shops when they first arrived and did not expand into them until the late 1960s. After his death in 1971, Sears took a stake in the company and eventually took it over.

Mecca also did not move into bookmaking until the early 1970s. At that time it was primarily a catering and entertainments group but saw the potential for betting shops when it acquired two established London groups, City Tote and Ron Nagle.

Shortly afterwards it was acquired by GrandMet but when, in 1986, the company's catering and entertainment interests were sold off to form Mecca Leisure, GrandMet kept the betting shops under a new company called Mecca Bookmakers.

Illegal off-track bookies, however, rushed to get licences, while some established on-track bookmakers, such as Ladbrokes, frantically opened up high street shops. By the late 1960s, the number of off-track betting shops in the UK had reached a peak of some 15,000.

But, as in other sectors of the retail trade, the small, independent shop has come under increasing pressure in the 1970s and 1980s from rising costs and increased competition from the multiples. Consequently, the number of shops has declined steadily – down to just over 10,000 at present.

Part of the problem was that betting shops had been closely regulated by the 1960 legislation to make them fairly unattractive places for people to go.

However, since 1986, betting shops have been allowed to make their shops far more attractive. Live television coverage of races, seats, and even refreshments were allowed. The large chains seized the opportunity with gusto: they joined a consortium providing television coverage of races and invested many millions in refurbishing their outlets.

But brightening up the shops has not only led to more punters' visiting the multiples' outlets. It has enabled the chains, with their investment in computer technology, to advertise complicated accumulator bets which bring a higher return than straightforward stakes.

The next significant step forward for the UK off-track betting business is Sunday racing and betting. The Government's tribulations in liberalising shop opening hours in general *may delay such a move for the* betting business until the 1990s. But few in the industry doubt that it will come eventually and will put even further pressure on small bookmakers.

Yet whatever the outcome of the OFT's deliberations in the next few weeks, Ladbroke, GrandMet, and Coral may see greater potential for off-track betting overseas, especially in continental Europe, where most betting is on-track through state-sponsored Totalisers.

Already Ladbroke and William Hill have a significant stake in Belgian off-track betting shops and Ladbroke has been licensed by the Dutch to develop off-track betting.

"Bookmakers, as most punters know to their cost, have a habit of keeping the odds in their favour."

UK BETTING STAKES 1980-1987

	Off-track £m	On-track £m	Tote £m
1981	3,094	250	107
1982	3,045	329	96
1983	3,185	362	87
1984	3,184	343	85
1985	3,432	375	87
1986	3,708	405	94
1987	4,053	453	105

Source: HM Customs and Excise

Profits up 31% at Leeds Permanent

LEEDS PERMANENT, the sixth largest *building* society, has announced a 31 per cent increase in pre-tax profits to £122m during 1988. Its assets have risen to £10.2bn.

The figures, for the financial year ending in September 1988, show that mortgage lending rose to a record £2.5bn, 28 per cent up on 1987.

The Leeds results were hailed as exceptionally good by City analysts. Building society results for 1988 are expected to be outstanding as savings and mortgage business have been at record levels.

SIB warned over difficulties in plan for disclosure of expenses

By Eric Short

THE SECURITIES and Investments Board has been warned of technical difficulties arising from its proposals for traditional life companies to disclose their expenses on with-profit business.

The warning comes from a joint working party of the Institute of Actuaries and the Faculty of Actuaries.

Last week, the SIB, the central watchdog body of the financial services industry, issued its proposals on disclosure of commission and expenses by life companies. It envisaged life companies, for the first time, disclosing to investors the impact of expenses as a percentage *deduction from the premiums.*

Mr David Walker, the SIB's chairman, envisaged investors comparing the comparative expense levels of life companies and the media producing "league tables" of such expenses.

However, the SIB acknowledged that there were difficulties and said it would consult the institute and the faculty.

The working party was set up by the institute and the faculty to examine the subject of life companies providing more information to intermediaries under the "best advice" requirements of the financial services regulations. Its brief was to encourage the provision of more information on a voluntary basis.

It can therefore consult with the SIB quickly, as the envisaged timetable for implementation is tight. Mr Barry Sherlock, *chairman of the working* party and chief executive of Equitable Life Assurance Society, welcomed the SIB's intention to consult and said the working party would be pleased to offer its professional advice, adding, however, that the SIB should be aware of the difficulties involved.

In addition, the working party has strong reservations about the SIB's further proposal that traditional life companies should be compulsorily required to produce a company booklet that would provide information on expenses, investment and bonus philosophy as part of the regulatory system.

The working party would prefer companies to be free to decide what to publish, reacting to market forces rather than regulations.

Those views do not represent the *official views of the institute* and faculty.

The working party intends to publish a discussion document in January for discussion at the institute.

BAe may collaborate with Fiat

By Lynton McLain

BRITISH AEROSPACE has started talks with Fiat, Italy's largest company, to explore opportunities for collaboration at a time when the European aerospace industry is being restructured and realigned.

BAe said yesterday that the talks with Fiat would continue, but gave no details of the subjects discussed.

BAe already has 24 collaborative programmes with 12 European nations and is seeking to identify the *potential of further* collaborative links.

Fiat has an aerospace subsidiary, Fiat Aviazione, a partner in Eurojet, the *consortium of* Rolls-Royce, MTU of Germany and Sener of Spain, which is building the engine for the European Fighter Aircraft.

BAe is Britain's largest manufacturing company and is the largest aerospace company in Europe, with few rivals to match its size.

That may be about to change with developments in West Germany, where Daimler-Benz, the car company, is seeking to acquire its third aerospace company, Messerschmitt-Bölkow-Blohm.

There are expected to be further meetings on the proposed takeover this week.

Daimler-Benz has already taken over Dornier, the second largest aircraft maker in West Germany and Motoren- und Turbinen-Union, the West German aero-engine company.

BAe is involved with Messerschmitt-Bölkow-Blohm, the largest West German aerospace company, through the Anglo-German-Italian Tornado fighter programme, which both companies are involved in building.

BAe earlier this year took over Rover, the British car company.

BAe *has been in talks on* collaboration with Thomson-CSF, the French electronics and defence equipment group, for five years.

CEGB fails to cost fuel choice policy

By David Green

THE CENTRAL Electricity Generating Board is finding it difficult to attach a cost to its policy of fuel diversity.

The policy, involving proposals for a £6bn programme of four pressurised water reactor (PWR) nuclear plants, has been *adopted in an attempt to* reduce dependence on coal, which provides 80 per cent of the electricity consumed in England and Wales.

It is regarded as an insurance against disruptions in supply caused by miners' strikes and to spread the risk of surprise price rises affecting any one fuel source.

The policy, endorsed by the Government, also aims to protect the non-fossil fuel sector when the electricity supply industry is privatised.

A *request for the costs of* such diversity to be quantified has come, however, from Professor Alistair Ulph, the independent economic assessor at the public inquiry into plans for Britain's second PWR, Hinkley Point C in Somerset.

The issue has become pertinent because CEGB figures show that under *privatisation*, coal-fired electricity generation is likely to be relatively cheaper than nuclear generation, *subject to steep rises in* fossil fuel prices.

That is because publicly owned monopolies, such as the CEGB, have to show only a notional 5 per cent return on investment.

It is generally agreed, however, that investors would require a real rate of return of at least 10 per cent to bear the financial risks of nuclear power, such as the uncertain costs of decommissioning.

The privatisation bill includes a requirement for the *new area distribution companies* to buy a proportion, likely to be between 15 and 20 per cent, of their electricity from non-fossil fuel sources.

Objectors at the Hinkley inquiry suggest that there must be a limit to the price that should be paid to maintain the diversity of fuel sources.

They argue that a significant increase in coal stocks or the ability to increase imports of *electricity from France could* achieve the same aims as diversity in fuel supplies.

Objectors have asked at what point nuclear power will become too expensive.

Mr Derek Davis, a board member of the CEGB, told the inquiry last week, however, that there was considerable difficulty in producing meaningful figures about the benefits of diversity as there were too many uncertainties.

Mr Frank Jenkin, the board's corporate director of strategic *studies, said that in theory the* bigger the non-fossil fuel sector, the smaller the risk would be of another miners' strike.

The inquiry continues tomorrow.

Price-fixing deals banned

By David Churchill

THE RESTRICTIVE Practices Court has taken action against a number of price-fixing agreements among operators of North Sea supply vessels and suppliers of cast iron and steel rolls.

The agreements were uncovered by the Office of Fair Trad*ing and brought before the* court to determine whether they were in the public interest.

The case against 11 operators of supply vessels to North Sea oil installations was instigated by the OFT after press reports last year. The agreements sought to set the minimum charge to be levied for the daily hire of the vessels.

As the agreements had not been registered with the OFT before operation, they were automatically declared null and void.

However, the court has also ruled that the agreements were not in the public interest and has made orders forbidding the *parties involved from enforcing* them or making similar agreements in future.

Price-fixing agreements between 11 suppliers of cast iron and steel rolls were also found to be against the public interest by the court.

The agreements had been discovered by the OFT in the mid 1980s, although they only operated during the 1970s.

Credit card debt warning

By Michael Cassell, Political Correspondent

LABOUR last night said that thousands of credit card users faced "debt misery" in 1989 and called on the Government to protect consumers from the excessive and wide variations in interest rates they can be asked to pay.

Mr Gordon Brown, the *shadow chief secretary to the* Treasury, said that many families would experience debt difficulties after Christmas.

He said that the wide variations in credit card interest rates would be largely to blame.

Mr Brown yesterday released figures which he said showed that consumers could pay excessive interest charges through ignorance of better deals elsewhere.

"This demonstrates the urgent need for government action to protect consumers from widely varying interest rates," Mr Brown said.

Furniture management buy-in

COUNTY NatWest Ventures, a venture capital company, has organised a £4.6m management buy-in at Gower Holdings, a flatpack furniture manufacturer, which is based in Halifax.

A team of new management has allied with CNWV to buy into the Gower. CNWV has funded the acquisition of 67 per cent of the company, which will in time be sold to a syndicate of institutional investors.

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MANAGEMENT

Electronics

How Race made the Japanese grade

Anthony Moreton on the Welsh group's approach to achieving exacting standards

Alf Gooding (left) and Malcolm Sanders: "Understanding Japanese thinking is the extra, essential ingredient"

On the 13th day before Christmas Alf Gooding sat at the boardroom table in the Cardiff headquarters of his Gooding Investments group with seven Japanese industrialists. Five of them had flown in from Tokyo the day before for talks about a joint venture between the two sides.

Gooding, whose main production arm, Race Electronics, was all but on its knees four years ago, swept downhill by the collapse of the home-computer market among its major customers, is more than used to negotiating with the Japanese.

"It needs patience and an awareness of their exacting standards," he says. Gooding should know just how much patience is needed. His is one of the select band of British companies to have become a leading supplier to the Japanese. He numbers many of the Japanese companies in Europe among his customers.

That business has helped to make the group one of the fastest-growing companies in Wales, a major force there in employment terms and a leading supplier of printed circuit boards to the electronics industry.

That rise has been accompanied by growing turnover and profit. In 1985 the Gooding group, of which Race is now the principal production arm, turned in a loss of £500,000 on £3m turnover. This year it should make about £3m on turnover of £40m and the ebullient Gooding is looking for a substantial increase in both profits and turnover next year. He is not a man given to half measures: "Bloody marvellous, absolutely bloody marvellous," is the way he describes how the company has grown.

Race has a thriving business with British companies, especially Amstrad, Dowty and IBM, but it is the Japanese who have done the trick. Every day lorry loads of printed boards move out to the M4 motorway en route for the European plants of Aiwa, Brother, Citizen, Epson, NEC, Ricoh, Sharp, Sony and Star.

How is it done? How can Race succeed where so many other British companies have failed?

Gooding suggests, perhaps a little disingenuously, that "the secret of success is really no secret at all. We produce what they want to a standard which they quite rightly demand, at a price which is competitive and to a timetable which meets their stringent requirements."

That begs the question, though. Lots of other companies do that. More specifically, Gooding admits success comes down to tight management and it helps if that management has an appreciation of the Japanese business culture.

The Japanese approach things differently, making sure that each step in a project is correct for them before adding the next building block. Nothing is rushed.

Gooding says it takes at least 18 months to two years to win their confidence. "It is a painful time. Their attention to detail is phenomenal. But you have to realise they are nervous themselves. They are 10,000 miles from home. Here they are in a different culture having to justify everything back home to someone who might even be against the whole concept of producing in Europe. So the local man's head is on the block.

"You have to be very patient and endure constant questioning on how you will meet their requirements. You must be accurate. Everything has to be a cold, hard statement that stands up to rigorous analysis. Japanese companies do not want anything that will let them down."

Negotiations are all about honesty, he says. "It is essential to be able to communicate with them, to understand their thinking and their whole approach to life. Anyone can make a product accurately, but understanding Japanese thinking is the extra, essential ingredient.

"It helps enormously for a western company to have senior managers who have actually worked for the Japanese, preferably in Japan. Such experience is extremely difficult for a westerner to obtain, partly because of the difficulty of learning the language but partly because of the suspicion Japanese companies have of inserting western thought into their management patterns.

Gooding has two trump cards: Malcolm Sanders and Tetso Suguira.

Sanders, Race's 38-year-old managing director, spent eight years with National Panasonic, some of it in Japan, having also worked three years for Sony. He knows not only how their companies work but also how they think, what makes them tick.

"I was one of the key employees when Panasonic set up its greenfield plant in Cardiff," he says, "and that involved visits to Japan. I had one particularly long stint there which was crucial to my appreciation of their methods and thinking.

"Japanese standards are most exacting, though British companies have caught up in the past few years. The Japanese lay down standards in the minutest detail and expect those standards to be met in high-volume production. It is relatively easy to meet their standards in small batches but quite another to reach them in mass production. That is what we have done at Race."

Seguira, Race's production director, joined the company from Sony after marrying a Welsh girl and opting to live in Wales rather than return to Japan. With two of his senior executives deeply knowledgeable of the ways of Japanese companies, Gooding considers he has a head start over his competitors.

The other touchstone is investment. "You must keep investing all the time," Gooding says. He looks enviously at Britain's competitors which enjoy lower rates of interest.

"Britain's high rates of interest are costing Race £500,000 a year," he complains. "That is how much more I have to pay for the same capital compared with our Japanese competitors. It is a terrible burden to carry."

On the trading front, Gooding says that "Once you have got the right sort of management and the right sort of capital equipment, then selling to the Japanese becomes easier because you are able to produce the goods they want to their standards."

The next step is relatively easier. Japanese companies look to subcontractors much more than do Europeans. They have a subcontractor culture. Gooding quickly realised this and set out to exploit it, starting with Brother when it began producing electronic typewriters at Wrexham, in north Wales.

It is at this point that hard commercial facts enter the equation. Cost, consistency, quality and flexibility then become the discussion points. "If you say you will deliver at 10 o'clock on Friday then the Japanese want to see the truck rolling through their gates at 10 o'clock, not at quarter past or half-past, but on time," says Gooding.

Having won their confidence, trading with Japanese companies then becomes an on-going process. Winning a contract is the start of a relationship. Japanese executives expect to be in their suppliers' factories every week. "They come to check on progress," Gooding says. "Not just the big things but minute details as well. This is where they differ from so many British concerns."

Gooding is convinced the attention to detail Japanese companies demand is beginning to be reflected within British industry. "Japanese companies are making an important contribution by imposing their high standards of quality, price and timing on British companies that want to do business with them," he says. "Once the Japanese have confidence in a supplier they will come back for more."

As Gooding looks through his window and sees the big container lorries pulling out of the Talbot Green plant destined for nearby Sony or far-away Epson he reflects with some pleasure how he has passed the Japanese litmus test.

'Finding the way to market things is the answer'

Gooding Investments is the privately-owned vehicle of the 54-year-old Cardiff entrepreneur Alf Gooding. Though he began his working life in the building trade as a roofer, Gooding always intended to work for himself.

The building trade in which he started and the electronics industry which now dominates his life share a common thread: *reliance on sub-contracting.* Race Electronics, a sub-contractor in the electronics industry and Gooding's production arm, is not so very different in principle from the building firm he built in the 1950s to undertake local authority housing work.

Gooding's success – and fortune – came, though, not so much from his growing building company as the patenting of the steel lintel in the 1960s. It is now a standard item in the building industry despite scepticism among architects over its use at the time. "It was hard to convince them it would not rust, but I won them over," he says.

In 1969 he set up Catnic. Never a man to hide his light under a bushel Gooding says that "finding the way to market things is the answer. Sell the product. I'm a good salesman, so *Catnic prospered." So much so that* RTZ, the UK natural resources group, bought it from him in 1983 for £15m.

Nor is he a man to sit in his Bentley all day wondering what to do next. A restrictive covenant in the deal with RTZ prevented his returning to the building industry for three years but a man with money is never without friends; he received a number of approaches, the first from Porth Textiles, a company that despite its name made Christmas decorations for stores like Woolworths.

Gooding bought the wobbling Porth company and a number of unrelated concerns in engineering, paper converting and packaging. The most important turned out to be Ace Coin, a small one-arm-bandit manufacturer based in Talbot Green, near the Royal Mint not far from Cardiff. Ace had a subsidiary, Race, that won *the first contract for the Acorn school* computer.

Gooding bought Ace, then employing some 60 people making electronics components and another 100 on the fruit machines, a week before the receiver moved in, reorganised and sold off Ace - then selling one-arm bandits - but kept Race, now Race Electronics. In due course, the other parts of the Gooding Group were sold and the Gooding group is now the holding company for a production concern that essentially comprises Race Electronics.

The problem with Race was its over-reliance on one customer: 93 per cent of its output went to Acorn Computers (the rest going to Dragon Computers and Delanair, a Jaguar air conditioning supplier). When the home-computer market collapsed, taking Acorn and Dragon down with *it, Race was knocked sideways.*

With his customary vigour Alf Gooding saved the day; almost before the news was on the stock market ticker [and before Acorn was put in the hands of a receiver] he was in Acorn's offices seeking – demanding – in his inimitable way payment of debts. Race emerged from the Acorn debacle, unlike many other concerns, without any losses. However, it had to cut back production and the workforce was slashed from 250 to 75.

It has won back the lost ground, though. The Japanese companies then in Wales were the initial targets, Brother being the first. Subsequently other Japanese manufacturers in Europe, as well as British companies became customers. By 1985 the group had been rehabilitated sufficiently to raise £8m through a private placing to finance expansion. *That expansion has been concentrated on the electronics industry.*

The eclectic mixture of companies did not work for a group aiming at a quotation and so the non-electronic bits, on institutional advice, were sold, leaving Race as the core.

"We still want to expand, but through vertical integration," says Gooding. "We shall acquire companies in a similar field and extend our own base by acquiring contract facilities."

ARTS

ARCHITECTURE

French taste

Colin Amery reviews 'Châteaux Bordeaux' in Paris

The combination of fine wine and good architecture is indeed a recipe for happiness. The Centre de Creation Industrielle played a brilliant stroke in conceiving an exhibition for the Pompidou Centre in Paris that celebrates both the history and the future of the châteaux of the Bordeaux region. (*Châteaux Bordeaux*, Centre Pompidou, Paris until February 20.)

Although the exhibition is probably coming to London it seems to belong so naturally to France that it is worth making the journey to Paris. You know you are in a city that that has its priorities right when you drive past the marble statues of the Place de la Concorde and see that they are safely wrapped up, Christo-like, for the winter. The feeling in Paris today, as the Grands Projets near completion and the celebrations for the anniversary of the events of 1789 are already in the air, is of a city with a powerful cultural purpose.

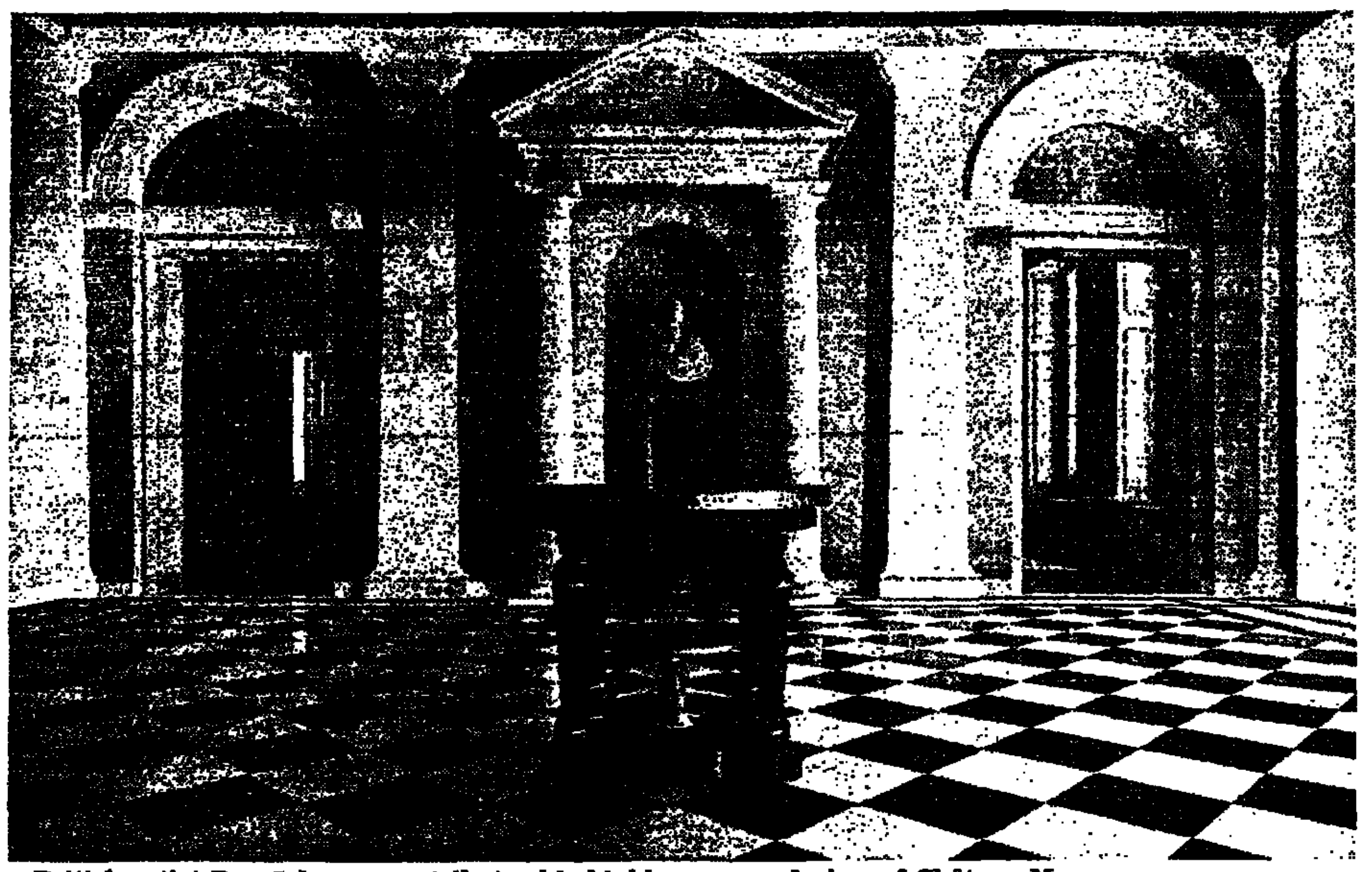
The conviction that good wine is as important to civilisation as good architecture underlies the provenance of this exhibition. The organiser, M. Jean Déthier, has a gift for taking a subject that is more than an architectural one – analysing its past, present and future and exploring its cultural significance. By selecting one French wine growing region, albeit the home of claret, he has limited his examination of the social and visual culture of wine: but the concentration ignites thoughts and speculations that range far from Bordeaux.

In Bordeaux there was an architectural flowering in both the 18th and the end of the 19th centuries, accompanied by economic expansion. With the development of the bottled (rather than cask) claret trade in the 19th century the idea of the château grew in importance. The buildings themselves appeared on the labels and their architecture began to be used to suggest quality, permanence and legitimacy. Many of the châteaux were architecturally distinguished – sometimes achieving that rustic grandeur which Palladio's farms and villas possess in the Veneto.

In the 20th century, despite the economic success of the region, virtually no distinguished architecture has been produced. Indeed the main thrust of the exhibition's message is to make us look at the regional character which we may not know as well as the character of the wines.

As part of the wider work of this exhibition, during a tour of the region a group of distinguished European architects conferred in an attempt to capture the particular genius of the place. They also observed the depressing dangers of increasing urbanisation.

The exhibition makes it clear that this successful wine growing region is at a decisive moment in its history. Some châteaux suffered and were abandoned earlier this century; the recent 1960s and 1970s affluence brought its own kind of damage. The danger now is one that faces all regions that have a particular character. The French have a good word for it: the "banalisation" of vernacular and regional architecture, and the substitution of a thin veneer of modern architectural fashion. The threats to the Bordelaise region affect the landscape as well as the architecture, which some fine photographs in the Paris exhibition make very clear.



British artist Ben Johnson contributes his highly measured view of Château Margaux

To counter in a positive manner all the threats, and to celebrate the finest qualities of *Châteaux Bordeaux*, Jean Déthier had the imaginative idea of commissioning a group of architects to propose schemes for five actual sites in the region. Each one of these sites embodied a future problem.

Two urban sites in the Chartrons quarter of Bordeaux raise the problem of the growing wine trade in the centre of the historic town. One site, at Blanquefort between the Medoc railway and the Gironde, looks at the potential for a lakeside city in a regional park devoted to wine growing. And the possibility of two completely new châteaux in a more rural location on the edge of Pauillac at Duhart-Milon and Château Pichon-Longueville offered architects a very rare opportunity.

To explore with the public and the architectural profession the idea of an "architecture viticole," artists and the photographer Michel Guillard present their own images. The aerial photographs taken on a helicopter trip and the views of the more utilitarian buildings enrich our understanding of the area. The 12 artists enliven the exhibition; the cool interiors painted by British artist Ben Johnson of Château Margaux and the new underground *chai* at Château Lafite are a great contrast to the more bacchanalian scene by Michel Bez. It is, of course, the new circular *chai* that was commissioned by Eric de Rothschild from the architect Ricardo Bofill that is the one distinguished contemporary contribution to the architecture of the region.

The neo-classical image is what remains most strongly in the mind after the exhibition. It is strong in both the painting and the architecture. Perhaps the spirit of classicism is most strongly expressed in the 15 large plans and measured drawings of châteaux that were commissioned from the Societe Academique d'Architecture from Toulouse.

This is a group much influenced by Leon Krier and Maurice Culot who have as their major concern the reconstruction of the European City. Their rustic interlude during the last 12 months has produced some finely executed work, and they have recorded châteaux in Médoc, Graves, Sauternes and St. Emilion. One drawing of Château Figeac (apart from the poorly drawn figures) could well have been by Schinkel.

The exhibition is highly enjoyable as a way of soaking into the built culture of Bordeaux. I was frankly disappointed by the contemporary projects, and I think I know why.

The châteaux of Bordeaux and their surrounding lands, although man made, have about them an instinctive quality that probably cannot be designed. The châteaux have evolved; it is not possible to create their blend of design and nature overnight. But the exhibition is highly worthwhile, provocative, and leaves behind a very good taste.

Aida
The Pearl Fishers

GRAND THEATRE, LEEDS

The Opera North production of *Aida* has been revived to add a note of operatic grandeur to the company's tenth anniversary season repertory. The show was much praised when first unveiled, in 1986. After Friday's performance not a whit of that praise seemed excessive: this is certainly the liveliest, most intelligent, most *interesting* account of the opera I have experienced in absolutely ages.

It is not conventional grandeur that has been sought, for this is not a conventional *Aida* – given the size of the company's home theatres, and, more important, the size of the company's budget, the familiar stage-filling ways with this opera were probably out of the question from the start. What Philip Prowse as producer-designer shows us instead is a fascinating, intimate, beautifully-textured "smaller house" view of the work.

The updating to the time of the work's composition enriches the possibilities of intimacy – the richness and sophisticated colour sense of the female costumes (Winterhalter crossed with Delacroix-style orientalism) provide in themselves a lesson in dramatically purposeful design. At the same time the great thematic contrasts of the libretto are not neglected. Here and there a detail may jar (Mr Prowse crowds the stage for Aida's Act 3 soliloquy), but that is of small importance when the overall feeling of the performance is of vitality, energy, and forward movement in abundance, a drama of character and spectacle in even balance. People who had begun to wonder whether this opera could only be presented, and understood, in terms of Earl's Court massiveness should speed along to Leeds for a wonderfully fresh settling of Verdian doubts.

The performance, conducted with energy and sometimes a degree of rashness (too much hard driving in Act 1) by Clive Timms, also shows Opera North's casting skills in the most admirable light. This is not an "international" *Aida*, but rather a skilful use of British voices to create a real ensemble (and when did you last hear or see a real ensemble in an "international" *Aida*?). Janice Cairns (Aida) and John Treleaven (Radames) have already worked together in Scottish Opera's *Aida* (a much less interesting attempt on similar lines). She tended to press hard on her tone, and ran into difficulties in the Nile scene; he was in ringing voice, notably more relaxed and communicative than usual. The sympathetic qualities of the pair – honest musicianship, sincerity, seriousness of approach – were given new glamour by the staging.

Glamour is something Sally Burgess (recalled from the original cast) has in inexhaustible quantity: dramatically this is the Amneris of one's dreams. Vocally it is a brave, and often brilliantly successful, venture into dramatic mezzo territory by a lovely singer without the big guns for Act 4. Keith Latham (Amonasro) is a keen young Verdi baritone well on the way toward compassing this short but monumental role. Excellent chorus, young-sounding and bright in attack – adjectives of praise which apply to the performance as a whole.

The previous evening I had caught up with *The Pearl Fishers* which the company have borrowed from the ENO, and which they are singing in French of an unembarrassing standard (the original language is also being used, similarly acceptably, in *Aida*). In London the staging, again by Philip Prowse, was a mess relieved by beautiful singing. In Leeds some of the more dubious design features have been pruned, and the local populace numbers fewer cameo-role eccentrics, but the drab grey of the basic set – these pearl fishers are plying their trade in the Baltic – remains a downer.

In the pit David Lloyd-Jones goes for delicacy rather than forward movement, an approach which highlights both the charm of the scoring and the weaker patches of invention. The star of the evening is the Zurga of Sergey Leiferkus, as it was in London. Anne Dawson (Leila) is ravishing except for an intermittently parched high register; Arthur Davies (Nadir) sounded tired, or overworked, or technically uneasy (all three, at the start). I enjoyed the performance rather less than I expected to, while still loving this silly, touching, musically blissful young man's opera to distraction.

Max Loppert

Anne Dawson as Leila in The Pearl Fishers

Cinderella

ORCHARD THEATRE, DARTFORD

The Orchard Theatre at Dartford in Kent had broken all box office records even before the new *Cinderella* starring Norman Wisdom and Linda Lusardi opened on Saturday night.

More than £300,000 is in the kitty, the season extended by one week to January 28. The local councillors looked suitably pleased with themselves at the reception. Their five-year-old pleasure palace operates on an annual turnover of £1.5m, three quarters of it earned through the box office.

Even the looming concrete development in the Orchard's grim surround cannot dispel a sense of communal holiday. And Norman Wisdom also overcomes the hideous neon-lit grey and red theatre interior. The place resembles an ocean-going cavern, exactly the opposite of what good pantomime deserves. Still, design style and originality of script are not on the agenda here.

Seemingly ageless (he admits between 68 and 72), still in a suit a size too small and a skew-whiff jockey cap, Wisdom belongs to pantomime because of his childish innocence and uncomplicated vulgarity. Buttons is his most obviously appropriate role.

Linda Lusardi, the reformed Page Three girl and topless model, proves a charming Cinders. The only nipples on view though, are Wisdom's, in the medical examination skit, one of many hoarily hilarious set-pieces with his granite-faced stooge, Tony Fayne. The "pick a card" routine establishes his sly stupidity, while the famous percussion lesson, Wisdom pummelled and assaulted by a Heath Robinson instruction kit, indulges our delight at others' physical humiliation.

The song sheet is brilliantly and originally done, the audience singing one word extremely loudly in order to rescue Buttons who is floating out of sight, entangled in yet more apparatus.

The wedding finale is still subject to Wisdom's indefatigable, gracefully executed incompetence as he offers the prince a snotty handkerchief. Bogies, like bottoms and burps, are the light weaponry of the true vaudevillian.

It is wonderful to see Wisdom on such irresistible form. He has already made my Christmas. The rest of Kevin Wood's production, with dreary stock sets, misplaced audience name-calling (after only five minutes), two naff male principal boys and a feeble rip-off of the Masked Ball sequence in *Phantom of the Opera* is short on authenticity.

Two good Ugly Sisters, though. Roy Alvis and David Dell are like a couple of Bermondsey dockers in drag. With a better script they would be dynamite.

Michael Coveney

Juilliard Quartet

WIGMORE HALL

For a quartet with so well-earned a household name, it is perhaps surprising how often the Juilliard has renewed its personnel. Of the present team, the leader Robert Mann has served longer than any of the others, and the second violin Joel Smirnoff joined them only two years ago. Yet the musical identity of the ensemble has remained consistent over the decades, and the audience who crowded the Wigmore Hall for their concerts this week were hearing the genuine article.

If anything, the Juilliard sound has perhaps grown a degree warmer, their bow-attack less hard-edged; or so it seemed on Thursday, when they began with particularly cheerful Haydn, the G major quartet from his opus 77. The jokes were all there, but the wit was never spikey – the final Presto was a model of how to do justice to Haydn's good humour while preserving the brilliant dash of his string-writing. Some moments of peccable pitch (not unknown in Juilliard performances, especially in the first half of a programme) made no trouble.

In Janácek's Quartet no. 2 they intruded more, partly because of the deliberate tempi chosen: what should be sharply expressive gestures tended to become rhetorical pronouncements, in which any slight mistuning was evident at once. The swift variety of the score was diminished by the uniformly insistent manner. On the whole, I thought the Juilliard made uncharacteristically heavy weather of the piece; perhaps it is a recent addition to their repertoire.

Their masterly essay in late Beethoven made full amends. This was the B-flat Quartet op. 130, with the original "Grosse Fuge" as conclusion, and it all glowed. Notably faithful to Beethoven's smallest details, the performance made its points with effortless subtlety. The little Presto had almost a throwaway air, and the "danza tedesca" exactly the right hint of concealed mischief. The great Cavatina was richly explored, as only an ensemble of such maturity can manage (Mann's treatment of the famous "sobbing" passage was quite faultless); and the fugal finale, which betrayed no trace of the usual hectic stress, was superbly balanced and poised.

David Murray

Shostakovich

BARBICAN HALL

In his 60th birthday celebrations last year Rostropovich gave us one memorable cello concerto after another, but none was more blazing in its inspiration than the First Cello Concerto of Shostakovich and a repeat performance in the "Music of the Flames" series, currently being devoted to the composer, was a must.

Rostropovich makes this a giant among concertos. Even since his performance last year other cellists have played this work in London and left an impression of it as being an enclosed and somewhat limited piece. But as soon as Rostropovich comes to the heart of the music, in the two central movements, it is as though he has opened the window on to a world of aspirations and emotional heights denied to lesser players.

This is due partly to the sheer size of tone that he produces; partly to that unquenchable torrent of intensity that has always been such a feature of his music-making and still sweeps it irresistibly forwards. The range of expression in the heartfelt second movement, ranging from the plaintive tone of the F sharp minor melody to the passion of its central climaxes, is unmatched in my experience.

As a whole performance, this one was perhaps less sharp in definition than its recent predecessor. (The tortuously difficult cadenza put headlong excitement before note-by-note clarity.)

But with Maxim Shostakovich and the London Symphony Orchestra holding on to the coat-tails of their soloist, it was one of those Rostropovich performances that any listener would be happy to embrace in an all-or-nothing spirit.

As to the performance of the Tenth Symphony I have some doubts. Remarkable though it is to see the evening's soloist, after such a first half, come back baton-in-hand for the rest of the programme, it seems to me that the freedoms of that kind of solo playing sit less well upon so taut a symphony as the Tenth.

Richard Fairman

Some samples of Christmas pop

The (pop) stars twinkle brightly at Christmas, turned on by the free spending devilment of the fans. It is the time when Boy George makes another come back, this year trimmed down to an army hair cut, less make up than the average mum, and a sartorial outfit, a kilt, which would be mundane on Princes Street.

His seasonal show at the Palladium was almost too respectable. The fans, many still living in the George geisha time warp of four years ago, were hoping for an outrage but all they got was a subdued professional with a fine voice showing off a new album, plus beefed up renditions of old hits – "Karma chameleon" was given a reggae beat. His only nod towards an outlandish past was the overworked, "You're my heroine". All in all it was reheated turkey.

As the Boy slunk off a very different rock hero took the stage at the tiny Borderline, a relaxed Tex Mex cavern off Charing Cross Road, which has become a trendy version of the Marquee. Rory Gallagher was one of the great exponents of British blues in the 1970s and here he still is, with the same drummer and bass player, a little plumper but still looking like your friendly Irish bar staff, churning out the blues through a mean guitar.

The music is, unfortunately, only followed now by a reclusive cult – about equivalent to the aficionados of purist New Orleans trad jazz. It has a sweat and sawdust appeal, but while a quick burst is exhilarating it lacks, shall we say, sophistication.

It was the cold shower before the hot bath available next night, back at the Palladium, where Brian Ferry made a rare appearance. Gone is the white jacketed, immobile, sophisticate of the past: instead he comes across more like the late Russell Harty, a baggy looking professional northerner in his black frock coat, shamelessly milking the applause with smiles and a kittenish eagerness to please. He is even so uncool as to pretend to play an imaginary guitar – can he be a secret AC/DC fan?

Like most rock legends Ferry can afford a fine band, (full marks to the drummer who consistently caught his tossed sticks), and pretty black singer-shakers, who give his act something of the appeal of a superior night club spectacle. The hits – "Love is the drug," "Camelot" – are timeless, and, although inherently superficial in content and packaging, Brian Ferry is an amiable trickster.

Little space for two extremes – Tanita Tikaram, who made a little go a long way at the Dominion, and Bon Jovi, who roused a storm at Wembley. Tanita is so young that in time her songs must make sense, and just as Sade developed remorselessly into a sophisticated stage presence so must the girl from Basingstoke. Bon Jovi's stadia rock is on the compassionate side of the pain threshold, making them meat madras rather than vindaloo. If you are going to be loud you might as well be nauseous. Bon Jovi are too knowing for their own good.

Antony Thorncroft

Sculpture for Cairo opera house

British sculptor Stephen Cox has been commissioned to make a sculpture for Cairo Opera House. It will be made in Egypt from local stone.

The opera house opened last October, and the sculpture, made from breccia, porphyry and Diorite, should be finished by the end of the year.

The commission was set up by the British Council and funded by the Foreign and Commonwealth Office.

ARTS GUIDE

December 16-22

MUSIC

London

London Philharmonic Orchestra, conducted by Klaus Tennstedt. Schoenberg, Mahler. Royal Festival Hall (Tues) (01-928-8800).
BBC Symphony Orchestra, conducted by David Atherton. Messiaen, Berlioz. Westminster Cathedral (Thurs) (01-928-8800).

Paris

Nouvel Orchestre Philharmonique conducted by Marek Janowski with Felicity Lott and Siegfried Jerusalem and the Radio France Choir. Franz Lehar. (Wed, Thur) Theatre Des Champs Elysées (47 20 36 37).
Nouvel Orchestre Philharmonique conducted by Marek Janowski with Felicity Lott and Siegfried Jerusalem and the Radio France Choir. Franz Lehar. (Wed, Thur) Theatre Des.ChampsElysees (47 20 36 37).
Orchestre de Paris conducted by Daniel Barenboim. Isaac Stern, (violin), Daniel Barenboim, (piano). Salle Pleyel (Mon).
Orchestre de Paris Choir conducted by Arthur Oldham. Bruckner. SallePleyel (Wed, Thur) (45 63 88 73).
Ensemble Orchestral de Paris' soloists. Brahms, Messiaen (Thur) Salle Gaveau (45 63 20 30).
Ensemble Orchestral de Paris conducted by Georges Lebel, MariaTipo, (piano). Mozart Salle Pleyel (Tue) (45 63 88 73).

Amsterdam

Handel's Messiah performed by the Netherlands Handel Society, the National Philharmonic and soloists under Thijs Kramer.
Concertgebouw (Tue)
Netherlands Chamber Choir, La Petite Bande, conducted by Sigiswald Kuijken. Bach. Concertgebouw (Wed) (718 345)

Utrecht

Netherlands Chamber Choir, La Petite Bande, conducted by Sigiswald Kuijken. Bach. Vredenburg (Tue) (31 45 44).

Rotterdam

Netherlands Wind Ensemble. Eisler, Toch, Weill. Recital Hall (Tue) (Doelen 413 2490).

Scheveningen

New London Chorale, Chapel Singers and Viotta Ensemble, Christmas music. Circus Theatre (Tue, Thur) (55 88 00).Royal Concertgebouw Orchestra, Neeme Jarvi conducting, with Boris Berman (piano). Svendsen, Prokofiev, Reger (Wed, Thur). Concertgebouw (718 345).
New Netherlands String Quartet. Schubert. (Tue) Recital Hall.
Victor Liberman conducting the Utrecht Conservatory String Orchestra. Shostakovich, Glazunov, Tchaikovsky. (Mon) Beurs (Damrak) (27 04 66).

Utrecht

Guher and Suer Pekinel (piano) with percussionists. Bartok, Schubert, Gershwin, Bernstein. Vredenburg (Mon).
Yehudi Menuhin conducting the Netherlands Philharmonic, with Dong-Suk Kang (violin). Badings, Dvorak, Mendlessohn, Schubert. Vredenburg (Wed).
Geoffrey Douglas Madge (piano) with the Schonberg Quartet. Beethoven, Hindemith, Franck (Mon). Vredenburg (31 45 44).

Eindhoven

The Bucharest Madrigal Choir. Lassus, Palestrina, Monteverdi. POC Theatre (Tue).
The Mozarteum Piano Trio. Eder, Mozart, Beethoven (Wed).
Mauricio Kagel conducting his own compositions with the New Ensemble (Thur). POC Theatre (51 38 33).

Vienna

Arnold Schoenberg Choir, conducted by Erwin Ortner. Monteverdi, Ligeti. Austrian State Radio and Television Centre (Thurs).
Camerata Academica, conducted by Sandor Vegh, with Andras Schiff (piano), Heinz Holliger, (oboe), Aurele Nicolet, (flute). Mozart. Konzerthaus (Wed).

Berlin

Berlin Philharmonic under Lorin Maazel. Yun, German premiere of D. Glanert, R. Strauss and B. Blacher. Philharmonie (Mon).

Munich

Boston Symphony Orchestra under Seiji Ozawa. Rossini, Mozart, Beethoven. Munchen, Herkulessaal der Residenz. (Mon).

Milan

Janos Furst conducting Ravinale, Kabalevsky, Mozart. (Mon. and Tues.) (6541044).
Jean Philippe Collard piano recital. (Tues) Teatro Piccolo. (8690631).

Genoa

Wiener Walzeorchester conducted by Willi Boskovsky. Viennese. Teatro Margherita.

New York

New York Philharmonic conducted by Zubin Mehta. Messiaen, Mozart. Avery Fisher Hall, Lincoln Center (Tue) (799 9595).
For the Love of Music directed by Richard Sortomme. Ravel, Poulenc, Chausson. Merkin Concert Hall (Wed) (362 8719).

Chicago

Chicago Symphony Orchestra conducted by Gunther Herbig. Shura Cherkassky (piano). Haydn, Tchaikovsky, Brahms. Orchestra Hall (Tue) (435 8122).

Washington

National Symphony Orchestra conducted by Richard Hickox, Patrizia Kwella (soprano), Martyn Hill (tenor), James Bowman (countertenor), Stephen Roberts (baritone). Handel: Messiah. Kennedy Center Concert Hall (Mon) (354 3776).

Tokyo

Beethoven. In Japan, the Christmas season means one thing musically: Beethoven's 9th Symphony. More than 30 performances are scheduled in Tokyo alone, with the Japan Philharmonic Orchestra, conducted by Ken-ichiro Kobayashi, at the Suntory Hall on Monday, Wednesday and Thursday (234 5911), the Yomiuri Nippon Symphony Orchestra, conducted by Siegfried Kurz, at the same venue on Tuesday (270 6191), and the NHK Symphony Orchestra, conducted by Ferdinand Leitner, at NHK Hall on Thursday (465 1781). Concert-goers searching for alternative fare this week are out of luck.

FINANCIAL TIMES
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The new team in Brussels

THE LINE-UP of the new European Commission, due to take over on January 6, has now been announced. Once more the baton is changing hands in the long relay race towards European integration. The question now is what will be the new team's pace, its direction and the hurdles it has to overcome.

The relative smoothness with which Mr Jacques Delors, the Commission president, has allocated jobs to his 16 colleagues was predictable, even though juggling portfolios to satisfy the personal and national sensitivities of appointees from 12 different governments is no mean feat.

Mr Delors has proved himself a clever political operator over the past four years. Further, his star has been in steady ascendance in the past year, as the Community's 1992 programme has caught the imagination of Europe and beyond. Indeed the very way the EC internal market project has taken off means that, for once, there is no real shortage of decent Commission jobs to be filled.

Ministerial experience

However, there is a clear risk that Mr Delors, the first two-term Commission head for many years, will substitute presidential rule for collegial debate, particularly with the departure of hard arguers like Lord Cockfield and Mr Peter Sutherland. It will be up to those like Mr Frans Andriessen, now the longest-serving Commissioner, who takes over external affairs, and newcomers like Mr Leon Brittan (competition and financial services), Mr Filippo Pandolfi (science), Mr Martin Bangemann (internal market and industry), with heavyweight national ministerial experience, to redress any imbalance.

The Brussels job carve-up spotlights three areas high on the new Commission's agenda. Mr Delors has, after all, chosen to keep monetary affairs for himself. This ties in with his chairmanship of the special EC central bank governors committee which is due to report in April on new steps towards monetary union. It also reflects his belief that closer monetary co-operation should form the second stage of the European integration rocket that will take the Community on beyond 1992; the first rocket stage being, of course, the internal market programme.

Tax debate

The second area is tax, for which a new and totally separate dossier has been carved out and placed in the hands of Mrs Christiane Scrivener of France, a Giscardian centrist. Those (including Mrs Margaret Thatcher) who might have hoped Brussels' tax plans would disappear with Lord Cockfield will be disappointed.

But the tax debate may shift. Mrs Scrivener openly sympathises with some UK Government arguments against *indirect* tax harmonisation. But her own country's push for *capital* tax harmonisation will put her political mettle to a severe test. The debate may also widen. Mrs Scrivener has been explicitly charged to take Brussels' first look at the Community's differing levels of social security payments.

Mr Delors has put a fellow socialist, Ms Vasso Papandreou of Greece, in charge of social affairs, the third of his priorities.

There is a common thread between these three areas — monetary, tax and social affairs — which could justify Mr Delors' patent interest in them. It is that Commission actions on any or all of these particularly sensitive fronts should be subordinated to the acid test: how far are they necessary to advance the Community towards a single market?

In the end, it is single-mindedness that will bring about the single market. That means discarding other ambitions and making only those changes needed to reduce real inconveniences from currency fluctuations, real trade distortions related to taxes and real fears of workers about job losses.

Time to end egg confusion

THE EXTRAORDINARY egg crisis, which has so far involved the resignation of one of the British Government's best-known ministers and seen parts of a normally sound industry teeter on the verge of collapse, should be one step nearer resolution this afternoon.

Details are due to be announced in the House of Commons of the Government's scheme to buy in the 400m surplus eggs which have accumulated over the 16 days since Mrs Edwina Currie, then junior Health Minister, declared that most of the country's egg production was infected with salmonella, thereby implying that anyone who ate eggs might be at risk of being poisoned by them.

The scheme will help the £500m-a-year industry to cope with its severest crisis yet. Britons are now eating fewer than 16m eggs a day compared to 30m only two weeks ago. Wholesale prices have slumped and many small producers face bankruptcy. The buying-in scheme will cost several million pounds, though precisely how much will be known only when it is seen how quickly it can restore some balance to the market and, even more importantly, help renew public confidence in eggs.

Sorry saga

For it is a measure of the confusion surrounding the whole sorry saga that the average British consumer is probably no clearer now than he or she was before Mrs Currie resigned about the real dangers of eating an egg.

The blame for this must lie with the Government, if only because it is the Government which is responsible for ensuring that health and safety standards for farmed food are both set and enforced. Its duty must be to explain both the rules and their transgression in a manner which can be clearly and unambiguously understood by people at large.

It has clearly failed to do this, for two principal reasons. First, the Ministry of Agriculture, responsible for enforcing health standards on farming industries on advice from the government's Chief Medical and Veterinary Officers, was dilatory in responding to what does appear to have been quite a serious increase over the last 18 months in the number of cases of salmonella attributable to eggs. The actual danger of an individual being poisoned by an egg might still have been one in 200m. But the Ministry took all summer to consult the industry on better health standards for rearing and feeding laying hens. And it produced a partial and still voluntary code of practice only on December 5, when fears about salmonella were already escalating into a major scare.

Second, however, has been the obvious tension between the Ministry of Agriculture and the Department of Health which became most acute after Mrs Currie made her unfortunate remarks.

Lack of agreement

Given the speed with which the crisis developed, some tension may have been inevitable. There was what one official described as "blood on the floor" as the two ministries fought last week over the wording of the advertisement which has been appearing in national newspapers over the weekend purporting to give The Facts about eggs. Their lack of agreement on the safety of eggs is immediately apparent to the careful reader.

Obviously the loss of public confidence in eggs would have been less serious had Mrs Currie apologised. The crisis itself might also have been handled better had Mr John MacGregor, the generally rather emollient Minister of Agriculture, not been engaged for the whole period in a series of negotiations in Montreal and Brussels.

If one lesson stands out it is that the Government must handle issues which potentially affect the health of millions in a manner that inspires confidence, not confusion. Given the present confusion, the Government would now be wise to publish what evidence it has, in more detail than has so far appeared, of the incidence of and dangers from salmonella in both eggs and poultry flocks. And it should thoroughly review its own scientific and bureaucratic procedures in the domain of the health and safety of farmed food so that if and when another salmonella-type scare occurs its judgments will appear both clear and trustworthy.

1988 THE WATERSHED YEAR

Edward Mortimer begins a series that explores dramatic changes in the world in the year just ending

A time of hope, a hint of peace

On the world political stage 1988 has been one of the most hopeful years since 1945. A whole series of important regional conflicts around the world have moved markedly closer to solution.

- The Greek and Turkish prime ministers met in January in Davos and agreed on measures to ease the tension between their countries. This helped to pave the way for renewed dialogue between the Greek and Turkish communities in Cyprus.
- The US, Soviet Union, Pakistan and Afghanistan signed agreements in April under which all Soviet troops should be out of Afghanistan by February 15, 1989.
- Talks began in London in May between the US, Soviet Union, South Africa, Cuba and Angola. These led to a partial ceasefire in Angola in August and eventually to the signature of last week's Brazzaville agreement: Cuban troops are to be withdrawn from Angola, and Namibia is at last to gain its independence from South Africa.
- Iran suddenly agreed to end its war with Iraq in July, on terms proposed a year earlier by the UN Security Council.
- Morocco and the Polisario Front, which for the last 13 years have been battling for control of the former Spanish Sahara, accepted in August a plan drawn up by Mr Javier Perez de Cuellar, the UN Secretary-General, for a ceasefire and a UN-supervised referendum.

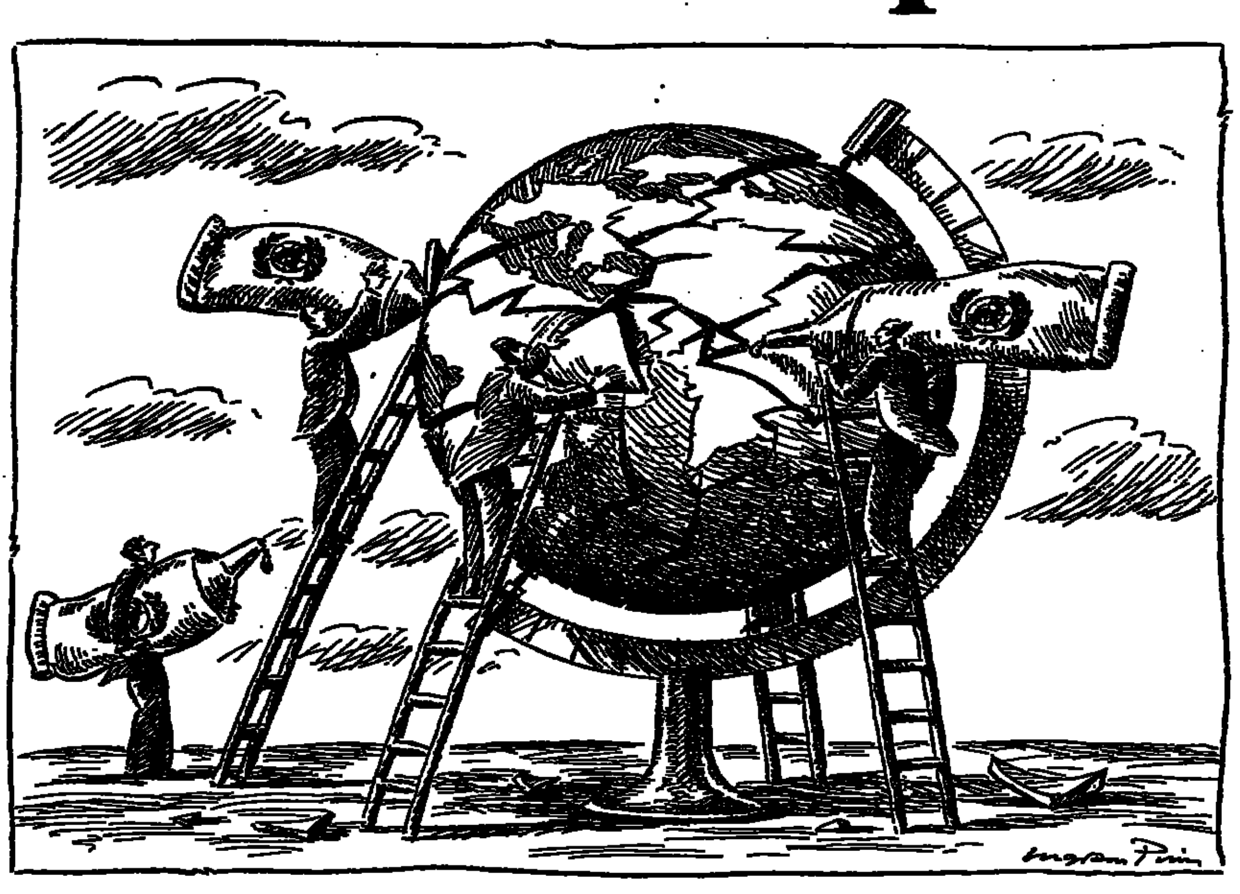
Aside from these specific achievements, there was a marked improvement in relations between the Soviet Union and China (which improved the prospects for an eventual resolution of the conflict in Kampuchea); and between North and South Korea. The president of the South, Mr Roh Tae Woo, made an eloquent appeal for reconciliation in a speech to the UN General Assembly.

And, finally, even that most intractable of all regional conflicts, the Arab-dispute, moved an important step nearer solution with the Palestine Liberation Organisation's formal acceptance of the principle of peace with Israel and the consequent US decision to open a dialogue with it.

All those developments, except the Sino-Soviet rapprochement, involved the United Nations in some way. But all also took place against a background of better relations between the superpowers, and few if any of them could have taken place without it.

Perhaps the most symbolically hopeful of all the year's events was the destruction of a whole category of nuclear missiles, under the terms of the US-Soviet INF agreement. Mr Eduard Shevardnadze, the Soviet Foreign Minister — never one to miss a good PR opportunity — used the UN General Assembly's special session on disarmament in June to invite representatives of the world community to witness the destruction of the first clusters of missiles.

On that occasion he accidentally stole the headlines from the substantively much more important proposal in the same speech for Nato and the Warsaw Pact to exchange data on their conventional forces and verify them by on-site inspection, with a view to agreeing on the asymmetries to be eliminated in the forthcoming Conventional Stability Talks (CST).



Two weeks ago it was the turn of President Mikhail Gorbachev himself to use the UN General Assembly as a platform for further proposals on virtually the whole range of problems currently facing the world, though this time it was his announcement of unilateral cuts in Soviet conventional forces that caught the headlines.

Those cuts, combined with further Soviet concessions on human rights issues, have helped to resolve the few remaining obstacles to a conclusion of the long-drawn-out East-West security talks in Vienna, and make it likely that the CST will be able to start early in the new year in a very hopeful atmosphere.

Overall there seems no reason to suppose that the improvement in East-West relations will not continue, provided only that Mr Gorbachev remains firmly in control in Moscow and does not have to resort to spectacularly repressive measures to contain nationalist movements either within the Soviet Union or, worse still, in any of the east European satellites. On the American side President George Bush will perhaps be a little more cautious than President Ronald Reagan, but he has clearly stated his desire to develop the new US-Soviet relationship.

If the "new detente" does indeed continue, it will probably result in a further strengthening and broadening of the UN's role in a wide variety of issues. A few years ago the UN was widely seen as increasingly irrelevant to the world's real problems, and it was supposed that any serious work on resolving these would be done either in groups of states that were ideologically or geographically close to each other (Nato, EC, G7 etc), or through ad hoc bilateral negotiations (especially between the superpowers), or even by decisive unilateral action (Falklands, Grenada, Tripoli).

But it now seems to be appreciated, even in Washington, that, while a superpower is always likely to keep that last option in the background, the number of cases to which it can be successfully applied is strictly limited.

That aspect of Reaganism is not quite dead, as Mr George Shultz showed when he prevented Mr Yassir Arafat from reaching UN headquarters in New York, an action considered illegal by the UN's legal counsel and every other member of the UN General Assembly except Israel. But it does seem to be in decline. Congress has reined in the Administration's interventionist policies in Nicaragua, and most Washington observers think it unlikely that Mr Bush will choose to open his administration with a new battle in Congress on that issue.

Mr Bush himself, and most of those he has so far appointed to positions affecting foreign policy, are old government hands with experience of working with allies and in multinational institutions — in marked contrast to the ideologues and cronies who flooded into Washington when Mr Reagan took office in 1981.

As for alliances, regional groupings and bilateral negotiations between superpowers, it is now clear that these are not alternatives to a workable global system but necessary adjuncts to it. The UN General Assembly with its 159 members would be quite unmanageable without effective co-ordination of positions between allies and regional neighbours; and the Security Council was designed to function only on the basis of consensus between the five great powers.

In fact, the UN grew out of the wartime alliance against Germany and Japan, and the outbreak of cold war between the allies prevented it from ever functioning in practice as its founders intended. It is true that the resulting rival power blocs have preferred to conduct their mutual relations mainly outside the UN, so as not to let neutrals presume to interfere or arbitrate between them.

But whenever the two superpowers have been able to agree on a course of action affecting third parties — for instance an intervention to secure a ceasefire in successive Arab-Israeli wars — they have found it convenient to work through the Security Council. Thus the wider common ground they are now discovering on a range of issues leads naturally to a more intensive use of UN machinery.

That discovery of common ground is primarily the result of Mr Gorbachev's "new thinking". The Soviet Union no longer sees itself as the leader of an embattled group of socialist states struggling in the short term to resist being crushed by "imperialism" and in the long term to spread their revolution to the world at large. It has discovered that it is a great power with many problems that it cannot solve on its own, many of which it shares to a greater or lesser degree with other states governed by different ideologies; some of which, indeed, are problems common to mankind as a whole.

This rather belated discovery has inspired Mr Gorbachev and his advisers to embrace the UN system with all the wide-eyed enthusiasm of the born-again convert — causing all the embarrassment that such enthusiasm generally induces in lifelong practitioners who have long since learned the weaknesses and inconveniences of the faith and made the appropriate worldly compromises.

Under the grandiose heading of "a comprehensive system of international peace and security" the Soviet Union has tabled a whole series of proposals for reviving and strengthening the UN. Mr Shevardnadze, for instance, in his speech to the General Assembly on September 27, suggested: greater UN involvement in nuclear disarmament and conventional arms limitation; the setting up of a World Space Organisation; an agreement limiting the proliferation of missile technology; a group under the Secretary-General to "provide assessments and forecasts in the area of new technologies"; various improvements in UN methods and procedures, including periodic meetings of the Security Council at foreign minister level; strengthening the International Court of Justice; and "developing a global strategy for the rational management of the environment".

Most of these suggestions were followed up by the Soviet delegation in the ensuing weeks with more detailed proposals, including the establishment of a permanent UN "reserve of military observers and armed forces"; and some were further amplified by Mr Gorbachev in his speech on December 7. Meanwhile the Soviet Union has requested observer status in GATT, and has indicated a longer-term interest in joining the World Bank and International Monetary Fund.

Clearly the international community is finding it difficult to digest such a rich diet of ideas all in one meal, and there are serious doubts about the ability of the UN machinery to handle it. But at the same time there is widespread recognition that many of the problems Mr Gorbachev is raising are real ones, and that the improved international atmosphere does provide better opportunities for dealing with them.

The year, after all, has not been one of unmixed success for international law or the peaceful settlement of disputes. In fact, one of the main "successes" listed at the beginning of this article, the end of the Iran-Iraq war, was achieved at least in part by the use of internationally outlawed chemical weapons, and was accompanied and followed by the horrific use of the same weapons against Iraq's civilian Kurdish population — a flagrant defiance of humanitarian principles which the UN Security Council, for all its earlier fulminations, seemed powerless to do anything about.

OBSERVER

Many roles of the FST

■ When Nigel Lawson was Financial Secretary at the Treasury, and perhaps did not expect to rise any higher, he used to say that he had the most important job in the Government outside the Cabinet. Indeed it is arguable that Lawson as FST had a more important job than some of the people inside the Cabinet.

It was never quite clear, however, whether the importance attached to the title of Financial Secretary or to the particular job that Lawson was doing. In fact, in the period 1979-81, he devised the Medium Term Financial Strategy which has provided the framework for the Government's economic policy ever since.

In retrospect, he seems to have done that because he was Nigel Lawson rather than because he was FST. For the task of the Financial Secretary keeps changing, as indeed do some of the other Ministerial roles within the Treasury.

Since Lawson left the post, he has been followed by Nicholas Ridley who looked mainly after tax, and John Moore who looked mainly after privatisation. Norman Lamont, the present FST, covers tax, privatisation and the budget. All of which suggests that Lamont must be one of the strongest candidates for promotion to the Cabinet in the next reshuffle.

Yet the ways of the Treasury can be very strange. In 1958 almost the entire ministerial team resigned over public expenditure: the now Lord Thorneycroft, Enoch Powell and Nigel Birch, who was FST.

A similar loyalty seems to have developed in the Treasury today. Apart from Lawson, the other Treasury member of the Cabinet is John Major, the Chief Secretary whose main business is public spending. Indeed bringing the Chief Secretary into the Cabinet was one of the reforms of the last Labour Government. And, apart from Lamont, in the rest of the team there is Peter Lilley, the Economic Secretary, who looks after VAT and Europe, and Peter Brooke, now the Chairman of the Party and Paymaster-General, but who still belongs to the Treasury. He attends the ministerial prayer meetings that take place three times a week under Lawson's guidance and without the presence of officials.

One has the impression that this is very much the Chancellor's personal organisation, and it seems to work well enough. It also looks like a team that will stand or fall together.

For the record, many Financial Secretaries have gone on to become Chancellor. Only one — Stanley Baldwin — has gone on to become Prime Minister.

Inside JMB

■ Johnson Matthey Bankers was one of the messiest banking scandals ever to hit the City, yet few people realise quite how messy.

Martin Harper knows. He was the clearing banker who was asked by the Bank of England to sort it out. Four years later he has told part of the story in Banking World, the official journal of the Chartered Institute of Bankers.

He reveals, for example, that JMB counted among its prized customers a Korean merchant whose main business lay in the New York rag trade. Another of its customers was given a loan to buy a consignment of Bulgarian tin plate which was to be exchanged in Trieste for a cargo of Iranian oil in a deal arranged by a financially unsound wine merchant in Innsbruck. Neither the tin plate nor the oil ever reached Trieste.

JMB was also in the habit of lending six month money to people who were exporting frozen fish to the tropics. Was this wise, Harper asks, in countries where the port facilities and the electricity supplies were so unreliable that the fish had rotted long before the loan was due?

The lessons Harper draws are the old-fashioned ones of prudence, sound organisation and, above all, a strong dose of scepticism, all of which were absent at the free-wheeling, chaotic JMB.

Sacred Union

■ Georgiy Arbatov, the Director of the Institute of US and Canadian Studies in the Soviet Union, has been speaking with a frankness unusual even for him in Washington.

Arbatov was among the guests at a luncheon given by the East-West Forum, the private organisation set up by the Seagram Company to promote East-West understanding. Two top American academics and experts on Moscow's ethnic conflicts, Professors Gail Lapidus and Seweryn Bialer, gave a fairly brutal assessment of the ethnic divisions in the Soviet Union.

One of the problems, Lapidus said as Arbotov munched calmly through his pork chop, was that "the Soviet system lacks a mechanism for managing conflict except by repression", an option not so readily to hand in the days of perestroika. Arbatov kept on munching.

Then he offered his own assessment of the challenges Moscow faces and dropped a heavy hint that if ethnic problems erupted to the point at which they threatened the Soviet state, all bets about the limits to the use of force would be off. "The Americans have to remember what happened with the attempted secession of the southern states," he warned.

In other words, the union is sacred — just as it was in the US.

Sally's ships

■ Ken Douglas, the 68-year-old former managing director of Austin & Pickersgill, has been watching the closure of his old yard in Wearside, now under North East Shipbuilders, with a few reflections on good times past.

Douglas says it was his idea to build the general purpose cargo vessels, the SD14s, which replaced the US-made Liberty Ships during the 1960s and 70s and proved the mainstay of the Sunderland yard where 126 were built. The 14 stood for the 14,000 gross tonnage, but over the years many people have puzzled over the SD. Some thought it stood for sheltered deck. "Nonsense," says Douglas, now chairman of governors at Sunderland Polytechnic, "My daughter is called Sally. It's as simple as that."

Worse luck

■ Card pinned to the coat of a violin-playing busker in Chelsea: "No luck to be down on."

هكذا من الأصل

John Lloyd reports from Armenia on the rescue chaos that has prolonged the agony of the earthquake

'We can bury our dead, that is all'

There is a cemetery near an Armenian village called Shirakamut which is for now the most unbearable place of this earth.

Two soldiers and an officer sit at its entrance, putting wood onto a fire, indifferently. Every minute or so, a truck or a car will turn in off the road and stop to tell the officer the names in the coffins. The the vehicles grind up the iced mud of the hillside to a plot of about 50 acres which is the extension to the existing cemetery. It is the main place for the dead of Leninakan.

At about seven last Friday morning, some elderly men lowered two adult and two childrens' plywood coffins into a grave they had themselves hacked out of the iron-hard soil. This had been the Nagarchan family: man, wife, two children. The effort had been superintended by an Uncle Andrionek Sookasyan. He stood astride the grave. Tears were flowing down his face. Over and over again, in a firm voice, he intoned: "Thanks to you, Mikhail Sergeyevich(Gorbachev), thanks to you, the Russian and other peoples, thanks to you foreigners, for your help. Thanks to you, Mikhail Sergeyevich . . ."

Beyond, an old, bulbous Volga car whined to a stop. An old man was driving, his two sons with him. The coffin, his wife's, was lashed into the boot. They got out, shaking with sobs. They lifted the coffin to the ground, threw a pick and a shovel beside it. The old man knelt by the coffin, a kind a continuous, low howl coming from him. He raised one hand to the sky and brought it down, softly, again and again, on the tatty plywood box. One son leant against the Volga, sobbing. The other started picking at the earth.

There is no kind of religious or other ceremony, except that of the rawest grief. The graves are marked with stakes, the names lettered on them in Armenian script.

This scene is, as we discover, an encapsulation of the earthquake relief effort. There is some basic provision, but for the most part, people rebuild lives as they can, on their own.

A little back along the road, Slavic Golostyan points to the ruins of the village of Gagasasj, a kilometre away. He was caretaker of the school there, completed four months before. Walking back towards it at 11.40 on the morning of Wednesday, December 7, he saw "our school rise, as if leaping, and fall to the earth. I fell to the earth myself. When I rose, I heard screams: 'Help me, help me.'"

Of the 120 or so children, Mr Golostyan and the others who tore at the fallen school saved 17. At his home in the same village, his wife was dead.

Leninakan, by last Friday, was closed. That is, private individuals other than authorised workers cannot enter. A group of us, foreign press, managed to get in by coming at it through roads from Georgia through northern Armenia which were lightly guarded.

The north-eastern suburbs still stand, precariously. Suddenly, as you approach the central square, does the hideous, continuing calamity grip you.

A row of flats and shops still stands. Next, a completely collapsed block. Some sort of rescue is going on. A crane lifting concrete blocks or rubble: knots of citizens or soldiers shovelling. Before them, on the pavements, the survivors. They huddle round wood fires, their rescued belongings piled about them. There is a wooden shelter, but very few tents.

Just up from the square, where the statue of Lenin is wholly undamaged, there is a huge textile factory. It has collapsed in upon itself. It had 5,000 workers. Its destruction alone would have been a catastrophe. On one side, a crane is trying to lift a vast slab of concrete lying atop a pile of rubble. Four men on or about the slab and the crane driver shout at each other for 10 minutes about how to lift it.

Finally, one takes a wire rope, loops it about the block and attaches it to one of the four hooks dangling from the crane and signals the operator to lift. Shouting still, the operator pulls a lever and the jib takes the strain. The block lifts a few metres, then the rope snaps.

A big man detaches himself from a ruck of watchers and stumbles over to the driver. He is screaming with rage. "What are you doing?" and "nine days, nine days," he roars, over and over again. The driver screams also and leaps out of his cab. Workers rush down from the site, watchers from the street and the two groups meet by the crane, its motor running hard. The operator and the big man stand, faces inches from each other, roaring. The big man wants to fight. They are separated by a couple of the workers.

A few yards away, a middle-aged woman begins to talk. She is Susannah Melkunyan, an Armenian from Leningrad, whose workmates at the "Little Star" children's sanatorium collected enough money for her ticket to Leninakan. She says she had no fewer than a 100 relatives here, most of whom are dead. This is some of what she says:

"My relative is sitting around without an overcoat, no-one gives her anything, she now has pneumonia. Why don't they hand out the clothes from abroad? The food they give out is just the stuff they have saved from the ruined shops, the stuff no-one wanted to buy. We can bury our dead, that is all. But if you leave your goods they will steal them. Who? People from out of town. The soldiers might steal money and gold, but the others steal everything you have. I am here for two days. The only thing I see is people with frightened eyes. No-one is organising anything."

Earthquake survivors pick through the rubble of Leninakan

Beside her, a man, Amayak Ovsepyan, 42, shouts in broken English: "Its the communists. Peoples hate communists. Food is poisoned. All my family . . . dead." Susannah Melkunyan waves him away irritably, but he pops back: "Peoples hate communists. Hate . . . hate . . ."

Further out, to the north east, a 10-storey apartment block has collapsed in upon itself. Thomas Saakiryan, about 65, a writer, has lost a daughter, a son-in-law, a seven-year-old grandchild. He points at the blocks of concrete and the metal grids twisted into lumps.

"They did not bold them together. We had thought these were the best buildings in the Soviet Union." A sobbing woman breaks in: "We cannot get help. We have to run and get it ourselves. Sometimes they come, sometimes they don't."

Walking further down the street, Rafik Manonkyan stops me to ask for help in getting his 78-year-old mother out of the ruins of her block. He had heard her cry for a day, eight days ago.

In the square, to the left of where Lenin points to the future, someone has dumped boxes of drugs and a harassed official is shouting at people grabbing at the boxes. They seem to be tranquillisers. People circle them like crows, stuffing them into their pockets.

Up the street, four Soviet soldiers, well kitted out, working hard, with gas masks, dig out a greying body. It is of a woman, perhaps in her later 40s. They push her into a coffin, and two men carry it out to a vehicle pulled up to the ruins.

Late on Saturday afternoon, a group of us meet Mr Varkies Artsumi, Deputy Prime Minister of Armenia, who is the senior civilian official in Leninakan. It easy, after a day in the town, to dislike this man, sitting in his comfortable office, the stairs up to it guarded by two soldiers with rifles, letting by a few supplicants begging for assistance. Of course he will be the focus for frustration. But he says so little which is not self-serving.

"We responded within hours . . . in the first day we decided to control the disaster . . . we have restored electricity and most of the water . . . we have set up hospitals."

Down the corridor, a door is marked "Austria". Inside, a group of weary looking Austrians from a 110-strong army rescue brigade sit smoking. We ask the leader, Lieutenant Horst Kohlbringen, about the organisation. He seeks to evade the question: "Every disaster of this kind teaches lessons. The Soviets will no doubt learn lessons from this." We ask again: what of the organisation? "I presume there is some," he said. Later, a Dutch doctor, Jan Lijtens, tells a Dutch colleague: "It is very, very bad."

It is very, very bad in Leninakan now. A large part of that is because there has been a monstrous calamity, and the shocked people there need someone to blame. But a large part of it is composed of the following elements: corruption, responsible for the shoddy buildings which crumbled too easily; the behaviour of the vultures, who steal and loot and who keep troops tied down to guard duties and the survivors pinned beside their belongings, freezing through the sub zero nights and days; troops who seem generally more intent on control than assistance, and who seem lethargic or indifferent; official responses which still, 10 days after, seem ad hoc, irritably harassed and unco-ordinated.

Above all, there is an apparent inability to create a response both open enough and efficient enough to absorb the suffering and address it.

Coming down on a plane from Moscow diverted three times in one night, ending finally in Sokhumi, 700 kms away from Leninakan, were soldiers, young Armenians who were only then coming to find what was left of their families. One, Rafael Nalbandyan, stationed out in Siberia, had spent two days after learning of the news on the radio unable to move. A kindly captain gave him and other Armenians leave. He waited for a plane at the nearest airport for a further two days, and had been rattling about the Soviet Union ever since. I doubt he is there yet. He has – or had – a mother, father, three brothers and two sisters in Leninakan.

What we seemed to have witnessed was a response rooted in what is still the fact of Soviet society: that everything happens at the top, and the middle and lower levels obstruct, delay and argue among themselves. Mr Nikolai Ryzhkov, the Prime Minister, has won praise from all agencies who work with him. Yet the village of Dzhadzhu got no help for a week until its surviving officials met him and begged for it. Perestroika is said to be about engendering initiative and responsibility at every level, ending the inert fragmentation of Soviet life. Leninakan is the cruellest display of its present lack of success.

LOMBARD

Time to tell it like it is

By Samuel Brittan

IF THERE were a prize for scoring own goals (let us call it an anti-Nobel prize), it would deserve to be won by the British Treasury.

The latest example concerns the retail prices index (RPI). The underlying rate of British inflation is at the top of the league for the Group of Seven summit countries. But the position is made far worse than it needs to be because of the inclusion of mortgage interest payments in the RPI.

The distortion works both ways. It not only boosts the published inflation level when mortgage rates go up, but also artificially lowers the published level when mortgage rates fall. The effect is to create enormously exaggerated swings in the apparent RPI behaviour.

As recently as February 1988 the annual rise in the RPI was only 3.3 per cent. In November it was 6.4 per cent. (This was unchanged since October, but students of the figures know that this is only a resting place in an upward movement.)

For mortgage rate increases already announced, or in the pipeline, are certain to take the published inflation level higher, almost whatever happens to performance. The UK Chancellor has said that the underlying inflation rate will rise to a peak of about 5½ per cent (excluding mortgage interest) some time in 1989 before turning down.

But he has not said what he thinks the published figure, including mortgage distortions, will reach.

Not only will the mortgage interest component of the RPI rise next year, but also the weight of these payments in the Index will rise on the present basis of calculation, which takes account of the estimated stock of mortgage debt.

According to Shearson Lehman, the effect could be to add 2½ percentage points to the underlying inflation rate, to give a peak of 8 per cent or more between February and March 1989. Even if this proves an exaggeration and the peak rate is in the high sevens, it will still have an unfavourable effect on inflationary expectations. Although employers' willingness and ability to pay are now more important than the trade union idea of a "going rate," beliefs about inflations still matter.

The best way to defuse the effect of bad – or seemingly bad – news would be to publicise it as much as possible in advance. On the rare occasions when the Chancellor has done this, it has worked. But simply waiting for a "shock horror" announcement is the worst possible approach. The worse the prevailing inflationary psychology, the more severe and more prolonged the official credit squeeze will have to be to do its work.

Another example of harmful failure to explain and to publicise concerns tax rates. Under a progressive tax system, the proportion of personal income paid in tax rises automatically – an effect known as "real fiscal drag." Income Tax rates have to be cut, or thresholds raised, merely to stabilise the proportion of income going in tax.

But not one voter in a hundred understands this. The Chancellor referred briefly to fiscal drag at the beginning of his 1988 Budget speech, but hardly ever before or since. It is quite possible that the 1988 Budget gave the wrong signal because it was so widely and wrongly presented as tax cutting, which – for the average citizen – it was not, to any significant extent.

Misleading or inadequate presentation tends to boomerang. In his 1989 Budget the Chancellor may well be terrorised into not reducing the basic tax rate, or not raising thresholds above inflation, or not doing so adequately – for fear of the announcement effects of tax changes which in truth would merely stabilise the tax burden at its present levels.

There may be a little more than presentation involved. The Treasury's inbuilt tendency is to be overstrict on the fiscal side, and keep interest rates lower than they ought to be. But as this is Christmas, and it is against the rules to speculate on advice given to Government ministers, I will simply give my own counsel to the Chancellor to run his own public relations – and to forget about pre-Budget purdah and all the other shibboleths of his office.

LETTERS

'The issue was tax avoidance'

From Mr Sol Picciotto.

Sir, I hesitate to disagree with so eminent an authority on corporate law as Professor Schmitthoff (December 8), but I feel that his strictures on the decision of the European Court of Justice in the *Daily Mail Trust* case are too severe.

The objectives of the European Community would not be advanced by allowing a liberal interpretation of the right of establishment on the basis of fundamental principles, rather than its introduction at the proper time with the agreement of the member states.

An important question is at stake: whether liberalisation should precede the legal measures necessary to prevent individuals or companies taking advantage of the greater freedom to avoid necessary regulation.

In this case, the issue was indeed tax avoidance, despite Professor Schmitthoff's contrary assertion – because, as he himself states, the explicit purpose of the transfer of company residence was to take advantage of the more favourable tax regime of the Netherlands.

As he points out, the United Kingdom is exceptional in separating place of incorporation and residence. In this context the consent requirement to transfer of residence abroad has not been a "minor administrative measure", but a central plank in the anti-avoidance defences.

There would be little to prevent a company, having removed its residence to another European Community (EC) state with a more beneficial tax regime, to move again to a low-tax country, even outside the Community. Only with the enactment (in this year's Finance Act) of the provision that a company transferring its residence abroad without consent is deemed to have disposed of and immediately re-acquired its assets (thus rendering it liable to capital gains tax on them) can the consent requirement be relaxed.

This brings us into line with other member states where, as Professor Schmitthoff points out, transfer of residence is only possible by winding up and re-incorporation.

Generally, it is becoming increasingly clear that liberalisation measures, especially in relation to financial markets and capital movements as well as rights of establishment, must be accompanied by harmonisation of laws and improved regulatory co-ordination.

Otherwise the wider market will lead to greater economic movement not for valid business purposes, but merely for regulatory avoidance.

This would put pressure on the European Community and its member states to reduce their supervision and regulation of markets at a time when the increasing sophistication and volatility of these markets require closer monitoring.

Specifically, in relation to tax avoidance, one would like to see the activation of the EC directive on mutual assistance, as well as ratification by the United Kingdom and other member states of the Organisation for Economic Co-operation and Development/Council of Europe multilateral convention on assistance in tax matters.

Sol Picciotto.
School of Law,
University of Warwick.

No need to fear Swiss arbitration law

From Mr Pierre Karrer.

Sir, If we are to believe Dr F.A. Mann's article, "New dangers of arbitration in Switzerland," (November 24), Switzerland's new arbitration law creates dangerous uncertainty.

No need to be afraid. As before, if the parties choose the law applicable to their contract, that law will apply.

If they say nothing, the arbitrators will apply "the rules of law with which the subject matter of the dispute has the closest connection."

This is not terribly different from saying, as English law does, "the proper law of the contract."

(The meticulous Swiss remember that some peripheral questions – such as the capacity to act – may be governed by a law other than the contract, hence "dispute".)

Even though international arbitration is covered in a comprehensive statute on conflict of laws in the widest sense, the private international law rules in the statute simply do not apply.

Therefore Article 19 need not worry Dr Mann.

Besides, Article 19 simply allows – it does not require – a state judge, in order to make "a judgment that is fair under Swiss concepts", if "legitimate and overriding interests of a party" are at stake, to "take into account" – not apply – certain provisions of a *foreign* law not otherwise applicable.

But only if there is a "close connection" of that other law with the case.

No such close connection exists where the parties have themselves chosen the applicable law.

Interference by state courts has been reduced:

If the parties have selected institutional arbitration rules which provide for appointment and replacement of arbitrators by an arbitral institution (such as the Zurich Chamber of Commerce), the Swiss courts will no longer second-guess what the arbitral institution has done.

If the parties have not chosen this type of arbitration, the law remains essentially the same as it was before.

A plea to set aside an award can now be brought straight to the Swiss Federal Supreme Court rather than first to a lower court.

When challenging an award, it is no longer sufficient to show that it is "arbitrary". Now *it must be "contrary to* public policy."

Now, parties may make English-style exclusion agreements, but only if both are non-Swiss, and they must say it expressly.

Thus, Switzerland allows the parties to do as they please. They may even expressly subject *their contract to the old* law (apparently closer to Dr Mann's ideas).

I dare predict that international businessmen will prefer the more modern and efficient Swiss statute.

Pierre Karrer,
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Switzerland

British attitudes to Ireland

From Mr Richard Austin-Cooper.

Sir, I can understand quite clearly why the Irish become irate at British attitudes. One has only to read your front page headline (December 15): "*King tells Dublin to review* law on extradition."

We do not *tell* Dublin anything. Dublin is the capital of the Republic of Ireland, a sovereign power.

You go on to say that Tom King, the Northern Ireland Secretary of State, "requests" – but by then it is too late. It is the headline which has the initial – and lasting – impact.

Richard Austin-Cooper,
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Wansford-in-England,
Peterborough, Cambridgeshire

Wrong would be worse

From Mr Michael Moore.

Sir, Mr W. Grey thinks there is something to be said for the architects of the Bretton Woods regime (Letters, November 21). Perhaps he would like to be reminded of some of the words of J.M. Keynes in a letter to Lord Beaverbrook dated April 27 1945.

"I am not less adverse to the gold standard than I was when I was fighting to destroy it; it is essential that we retain exchange elasticity.

" . . . I believe that:

"(1) Bretton Woods is far removed from the gold standard as indeed the American Bankers justly affirm;

"(2) From what I hear, we shall have no difficulty in keeping all the protection we shall need for agriculture;

"(3) I do not anticipate we shall have to give up Imperial Preference as a principle . . ."

One thing worse than an unstable exchange rate is the wrong fixed exchange rate – as we had under the gold standard 1925-1931, with such disastrous consequences.

Michael Moore,
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FINANCIAL TIMES

Monday December 19 1988

Janet Bush on Wall Street

Keeping a wary eye on the taxman

THERE is no doubt that a year of relatively stable markets, partly engineered by the Group of Seven leading industrial nations keen to ensure continuity between Republican Administrations, has given Wall Street and regional companies breathing space and a chance quietly to retrench.

New equity issues remain limited, leaving syndication in the doldrums, and commissions from active dealing in bonds and equities have been replaced by much less profitable fees from sharply higher investment in CDs. But the industry is surviving.

Mr Hardwick Simmons, new chairman of the Securities Industry Association and vice chairman of Shearson Lehman Hutton, notes that in contrast to the crash year of 1929, there was no withdrawal of assets by investors in 1987. "Assets stayed this time. When there is a trigger for more activity, there is going to be a hell of a narrow door with a lot of fixed income going through it," he said.

This is the bread and butter of survival for brokers. However, larger problems threaten, and they could be far more dangerous to the securities industry than low volume.

With budget deficit fever at full pitch, the question of higher taxes dominates discussion on Wall Street.

Securities houses fear, in general, that any combination of tighter monetary policy and higher taxes could tip what is expected to be a slowing economy into recession as early as next year.

More parochially, however, the industry is concerned that any general trawl for areas where revenues could be raised could quickly focus on the financial community.

Wall Street's political stock has fallen under the weight of insider trading scandals and what is widely regarded on Capitol Hill as the orgy of greed parading as the auction of RJR Nabisco.

Talk is widespread in Congress about introducing a tax on borrowing related to takeovers. There is a definite fear within the securities industry that if such a measure was passed the taboo of higher taxes would have been broken and other areas of the industry could be vulnerable.

Securities industry lobbyists are gearing up for a fight against any kind of tax on transactions and in favour of scrapping double taxation of dividends and a cut in the capital gains tax promised by President-elect George Bush during his election campaign.

With activity in the securities markets at such a low ebb, the industry is looking for tax breaks to lure investors back to the market. It may be all that Wall Street can do, however, to keep the status quo.

Another key issue within the industry remains whether there will be renewed legislative efforts to repeal the Glass-Steagall Act.

There is some relief that the bills proposed in the Senate and House of Representatives during the 100th Congress came to nothing. They offered banks expanded powers but gave nothing to the securities industry, in Wall Street's view.

"The 100th Congress came perilously close to giving Senator Proxmire (retiring chairman of the Senate Banking Committee and significant motivator behind Glass-Steagall reform) a golden bowler hat," said Mr James Barton, president of Pru-Bache Securities.

Until Congress returns to the issue – and the thrift crisis is likely to take precedence – there is a danger that the barriers will be further eroded just as brokerages are facing fierce competition from banks for a smaller slice of business.

Banks have already been granted limited new securities powers by the US Federal Reserve and the Fed is examining a slew of additional applications filed after Congress broke up. The central bank is likely to be cautious about alienating Congress by going ahead without its rubber stamp, but any legislative delays will work in the banks' favour.

There is some speculation of a deal in which commercial banks would be granted expanded powers in return for help in bailing out insolvent thrifts, a theoretical possibility causing some paranoia within the securities industry.

Deregulation is increasingly being looked at in a global context. US financial institutions are genuinely concerned that they will not be able to compete with their foreign counterparts without a radical overhaul of US regulations.

BP signs fuel deal with Venezuela

By Steven Butler in London

BRITISH Petroleum has signed a deal with Venezuela's state oil company to sell a new fuel in Europe, representing the UK group's first marketing venture with a member of the Organisation of Petroleum Exporting Countries.

The agreement with Petroleos de Venezuela, reported in today's Petroleum Argus, the oil weekly, is for the marketing of up to 200,000 barrels a day of the fuel, called orimulsion, by the mid-1990s. The fuel is made from extra-heavy petroleum found in Venezuela's Orinoco oil belt and will compete with coal in steam-generating.

Announcement of the venture, to be named BP Bitor, has been delayed for reasons of possible political sensitivity. Mr Carlos Andres Perez Rodriguez, the Venezuelan president-elect, has promised to halt the highly successful overseas investment programme of the state group.

Petroleos de Venezuela is participating in a broad range of joint ventures in Europe and North America, including one with Unocal of the US for refining and distributing petroleum in 12 mid-west states. The joint ventures are aimed at finding secure markets for Venezuelan crude oils.

Orimulsion consists of 72 per cent Orinoco heavy crude, which is bitumen, and 28 per cent water, plus a chemical additive. It can be transported in tankers.

Plans for the venture include marketing 12,000 b/d over the next year to European customers. Total orimulsion production capacity is expected to reach 600,000 b/d by 1995. Marketing efforts are planned for North America and Japan as well as Europe.

Orinoco has the world's largest known accumulation of hydrocarbons, with some 270bn barrels of recoverable reserves, and Venezuela could potentially swamp energy markets now that it has found an economic use for the heavy crudes.

Launch of the product earlier this year, however, produced friction within Opec and the Venezuelans were forced to tone down promotion efforts.

Although the heavy crudes fall outside definitions for the coverage of Opec production quotas, because heavy crudes cannot be processed by normal refinery methods, they would nevertheless compete in the fuel markets with refined oil products.

The Venezuelan state oil group now plans to develop sales gradually so as not to disrupt the market for other fuels. Venezuela is heavily dependent on oil exports for revenues and also has an important coal export industry.

Violence shrouds Sri Lankan poll

David Housego reports on the first national election for 11 years

SRI LANKANS go to the polls today to elect a new President in an atmosphere of continuing fear and violence.

The extremist People's Liberation Front (JVP) yesterday reinforced its call for a boycott of the elections by imposing a partial shutdown in large parts of the southern province, where the movement is at its strongest.

The JVP, in a renewed show of strength despite a month-long crackdown by the armed forces, ordered shops to close and people to remain within their houses.

Notices were put up beside the road warning that the penalty for voting today would be death. Sideroads were blocked by felled trees and scattered with nails. In some places the security forces were later able to compel shopkeepers to open and army vehicles toured villages broadcasting warnings that penalties would be severe for shops that remained shut.

The military said further steps would be taken today to encourage people to cast their votes. In the vendetta between the security forces, local political bosses and the JVP, the bodies of four youths, each shot in the head, were dumped overnight on a road near Tangalle. Another two were left burning on the road to Hambantota.

In this atmosphere of intimidation, Mr Mahinda Rajapakse, a lawyer and campaign organiser for Mrs Srimavo Bandaranaike, the candidate of the opposition Sri Lanka Freedom Party (SLFP), said yesterday the turnout in the province could drop to as low as 25 per cent. A low turnout – particularly in the south where the left is strong – is seen as favouring Mr R.Premadasa, the Prime Minister and candidate for the ruling United National Party.

Because of this, some SLFP leaders have blamed the Government for being behind the violence. But yesterday's disruption in the south, according to all parties, was JVP-inspired.

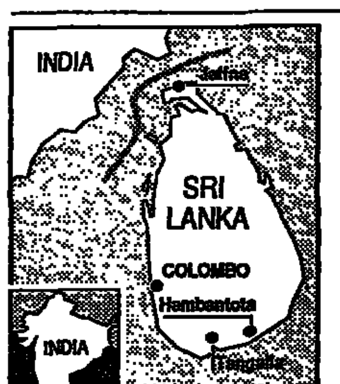
By contrast, Colombo has been quiet. In an effort to prevent further violence and reprisals after the results are declared, the Government is expected to impose a curfew tomorrow. The outgoing President, Mr Junius Jayawardene, is due tomorrow to dissolve Parliament in preparation for general elections in February.

Because of the atmosphere of fear and the possibility of extensive ballot rigging, much uncertainty hangs over the results. The normal pattern in Sri Lankan politics is of a swing of the pendulum that returns the opposition to power in national polls.

In this particular case, this factor should have worked strongly against the Government because it has suffered the unpopularity of ethnic violence, a breakdown of law and order, the closure of schools and universities and the recent economic disruption.

Because President Jayawardene postponed earlier elections, this is the first national poll for 11 years. Until the last few days, it had seemed that the threat of violence could mean that the presidential election would be called off as well. As it is, the candidates have had little opportunity for campaigning or holding public meetings because of bomb threats.

For whoever takes over as President, the overriding priority will be to bring the JVP insurrection under control. Achieving the right mixture of military force and dialogue will be the more difficult because of the prospect of further elections in February.



AT LEAST nine people died in Sri Lanka yesterday as violence escalated on the eve of the country's presidential election, agencies report from Colombo.

Gunmen burst into the home of opposition politician Mr Neville Fernando, in Panadura, south of the capital, killing six people and wounding six others. Mr Fernando was unhurt. Local police blamed the extremist People's Liberation Front (JVP) for the attack.

JVP guerrillas were also suspected of planting a bomb which exploded on a bus yesterday, killing at least three people and wounding 50 others. The deaths brought to at least 25 the number of people who have died this weekend in attacks by suspected JVP guerrillas and other unidentified gunmen. Six polling centres were also attacked.

The JVP has threatened to disrupt the election and said it would shoot people if they voted.

The Government, in an apparent response, announced yesterday that anyone who tried to prevent voters from casting their ballots could face the death penalty.

Citicorp slims UK equity dealings

By David Lascelles, Banking Editor, in London

CITICORP Scrimgeour Vickers, the London equities arm of Citicorp of New York, is to narrow the scope of its market-making operations from 600 stocks to 400.

The reduction, which takes effect today, is part of a move by CSV to cut costs and focus its business on the market's most actively traded stocks. Mr John McFarlane, CSV's managing director, stressed that his firm remained committed to the equity market despite the losses which have driven out other participants in recent weeks.

The 400 will consist of 250 leading stocks which make up 95 per cent of market turnover, between 50 and 100 growth company stocks, and about 50 stocks of CSV corporate finance clients. Citicorp has targeted the market of growth companies as one which it wants to dominate in the UK.

Mr McFarlane said that CSV had substantially reduced its staff and costs in recent months and was now confident that it could eliminate its losses in the coming year.

Total staff numbers had been more than halved from 1,000 to about 400, and total annual outlays had been reduced from £60m ($109m) to just over £30m, he said.

All UK equity market makers have been facing severe pressures since the stock market crash last year and the outbreak of a price-cutting war in the summer.

Following the withdrawal of Morgan Grenfell from the equities business nearly a fortnight ago, there has been speculation that CSV might also be facing closure.

However a senior Citicorp official said that the banking group intended to support its securities unit because it widened Citicorp's product range, and provided it with an opportunity to engage in a business from which it was barred in its domestic market by US banking law.

Scrimgeour gets intself into shape, Page 7

Estimates of Armenian dead hit 100,000

Continued from Page 1

from ruined stores. There was a near-brawl between survivors and workers on a site where the crane was failing to raise concrete blocks.

We also witnessed a free-for-all round boxes of medicine dumped in a shelter on the main square, and everywhere piles of plywood coffins, groups of survivors walking or huddling in shock, a few shaking with grief.

In an interview with the foreign press group, Mr Varkies Artsunin, the Armenian deputy Prime Minister who is in charge of civilian operations in the town, said experts had warned the authorities to prepare for the possibility of after-shocks in coming days which might reach six on the Richter scale.

Some 7,000 to 8,000 people had been evacuated, water supply had returned and 70 per cent of the electricity supply was working. A serious epidemic, he said, was still "possible" – although he noted that the cold weather, with temperatures as low as minus 15 degrees centigrade, might keep it at bay. Workers in the ruined buildings wear face masks, and spread lime about the rubble.

He said that people had been found alive as late as last Friday, and that a pregnant woman, found after six days, had successfully been delivered of her baby.

Mr Artsunin said that the Karabakh committee, the nationalist group, had been claiming that it had organised rescue work, but such assertions were false.

On a hillside some miles east of Leninakan, a huge plot has been designated outside an existing cemetery for the citizens to bury their dead. They do so unaided, hauling the coffins to the site, hacking at the steely ground with pickaxes and shovels, putting them under the ground without ceremony. On the road below it, two elderly men waited for the tea and bread they hoped would come, having spent the night in a pile of hay bales. One, Mr Gurgan Mangasaryan, 62, said: "Sometimes they help us, sometimes they don't."

Almost all the survivors were overwhelmingly grateful for the foreign aid – about 1,500 foreign workers are now in or around the town – and contrasted them savagely with the Soviet provision.

However, it is clear that the bulk of the work is now being undertaken by Soviet army and civilian personnel, with in some cases impressive results.

One Armenian family – the Balavaryans – insisted on taking a group of us into their undamaged one-storey house, and giving us Armenian brandy, cigarettes and ice cream, seeing us as proxies for the foreign assistance.

On leaving, the matriarch of the family embraced each of us, sobbing, as her great grandchildren grinned and posed for the cameras.

In the holy city of Echmiadzin, the Armenians' spiritual leader, Patriarch Vazgen I, held a service for the victims yesterday. He said: "The eyes of the Armenian people, even non-believers, are on our church today. We must be a united people."

Mother Teresa of Calcutta arrived in Yerevan yesterday, saying she wished to give "tender love and care" to the survivors.

WORLD WEATHER

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Europe telecoms pact

Continued from Page 1

munications services to greater competition.

The Commission proposes to ban public monopolies over value-added telecommunications services – information services carried over the telephone network – and to enforce common conditions for private operators to gain access to public telephone networks throughout the EC.

Under the second of these proposals, companies would be able to set up pan-European services more easily because a connection system agreed in one country would be applicable in another.

If the Commission's proposals are carried out, the big network operators are expected to be exposed to much greater competition than hitherto from new organisations offering pan-European telephone services.

Three months ago the established national telephone companies drew up plans for a jointly-owned European-wide data network operating company.

THE LEX COLUMN

Speeding up the German tortoise

The sticky mess that London market-makers have got themselves into is being observed with little compassion in Germany. Used to being ridiculed by the rest of the world for its retarded financial system, Frankfurt is now savouring the triumph of the tortoise over the hare. There is, of course, little danger of Germany ever winning the race; rather the aim is not to get too far behind. Left to its own devices, Germany might be happy to live indefinitely with its half-pint sized stock market, complete with high costs, unhelpful taxes, and over-regulation, all under the protection of its universal banks.

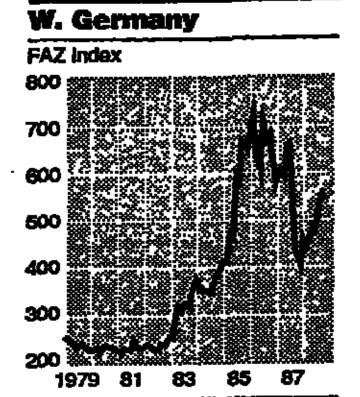
This week, important progress was made on two fronts. The legal obstacles to establishing a futures and options market were all but removed, and Deutsche Bank declared that it was to compete with its old chum Allianz in selling life insurance. Both moves mark a victory over the status quo: competition is at last forcing the banks to get off their backsides, even if it means breaking down the old traditional ties that have served them so nicely for so long. The establishment of a futures exchange, while relatively unimportant in itself, will expose the backward practices of the stockmarket and force something to be done about them.

Learning process

Despite the great investment in technology in the Frankfurt exchange this year – the first big investment since the 1950s – present practices are not sufficiently grown-up to support a futures market. For a start, the stock exchange will have to brace itself for a working day that starts before coffee time and ends after lunch. Traders will also have some learning to do; at the moment they are not even allowed to go short, and are less than adept at valuing the few existing warrants and convertible bonds.

While much is being done to establish transparency on the stock exchange floor, the companies themselves are responding more slowly to EC efforts to prise them open. Next year, German investors will be introduced to interim profits for the first time, and the year after that to consolidated accounts. That may be enough to keep the growing ranks of analysts busy, but for so long as companies continue to hide half their profits from the taxman, the true worth will be almost as hard to establish as ever.

Meanwhile, this summer's



change in insider rules has so far had no effect at all, and shares, regular as clockwork, still rise before announcements. Indeed, the only consequence of broadening slightly the definition of an insider in the voluntary guidelines, and of reducing the old embargoes of several days on price-sensitive information, is that journalists have to work faster.

Marketing

None of this can help the task of the exchange in marketing itself to investors, which is hard enough anyway given that Germany has been spoilt by 22 years of high returns and low risks in the bond market. Despite one of the highest savings ratios in the world, investors persist in investing funds worth twice the entire capitalisation of the stock market on deposits earning 2 per cent.

The need for marketing at home has become more pressing since the crash, when foreigners took back some DM10bn; and even though some of that money has come back in the past five months, the big years of foreign investment in the mid-1980s are not expected to return. German institutions are taking up some of the slack, discovering equities at last through their special funds; however, the stock market still accounts for under 10 per cent of their assets. This will surely rise: as foreign insurance companies march into Germany with more competitive products to sell, domestic companies have no choice but to look to their total returns.

The ageing population is another theme for the market. The stock exchange is eyeing the DM200bn of pension money sitting in corporate balance sheets, but given the opposition from industry to losing this cheap source of funds, its chances of getting its hands on the money seem slender. The individual looks a somewhat better bet, both through the the growth in personal pension schemes, and through money being passed to the first generation in Germany this century not to have lost everything through either war or inflation. Between now and the year 2000, some 1.7m young Germans will be the lucky recipients of DM640bn, a sum which explains why Frankfurt is hurrying to develop a fund management industry.

The prospects for growth in supply look equally distant, and a noticeable change will not begin until German companies become more acquisitive – as they eventually must if they are to retain their world standing. Higher earnings and recent rights issues have left existing businesses with scant demand for funds, and with underlying balance sheet gearing at about its lowest ever.

Slow changes

In any country other than secretive and equity-shy Germany, a new issue boom would be guaranteed by the 1990 tax change imposing a heavy penalty on the sale of private companies. But of the thousands of businesses that will be affected, only 30 or so are likely to come to the market, the rest preferring no action – selling out is still regarded as a defeat – or the secrecy of a private deal. But faced with a growing international threat, belated changes are being made.

Frankfurt would like to blame its poor competitive position on Bonn, which has not merely reneged on its promise to get rid of the turnover tax, but has decided to introduce a withholding tax as well. But the real problem is a chronic cultural aversion to risk both on the part of investors and issuers, which explains why progress has been, and continues to be, so slow.

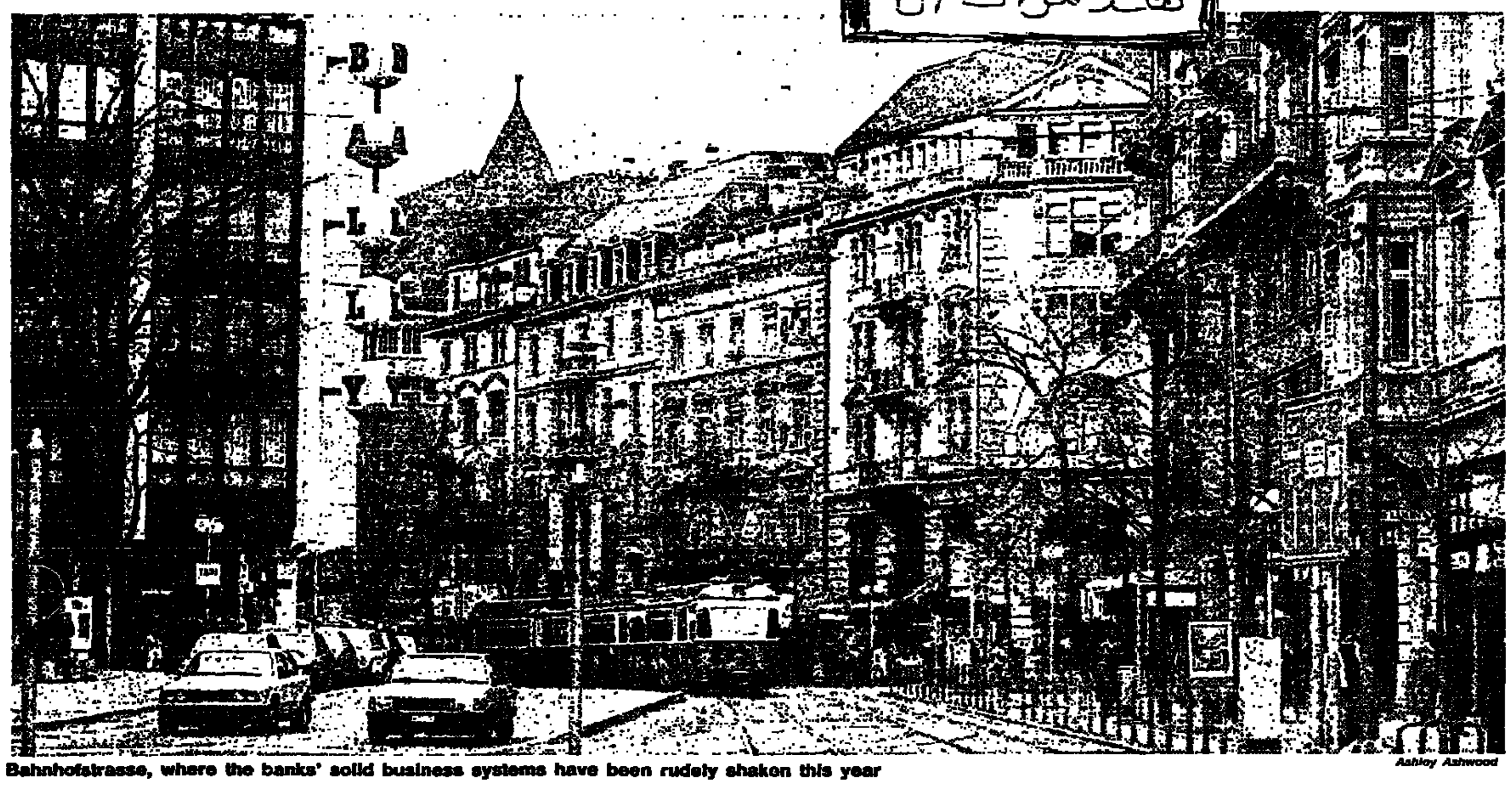
Still, being the last to reform is not without its advantages. The new technology now being installed at the Frankfurt stock exchange will make it fully electronic at a fraction of the price paid by London. More important, Frankfurt is doing its utmost to avert its own market-making war. Even though commissions have fallen by about half in the past year, there is little stomach for taking on business at a loss. If that means allowing London to do a third of the business in Siemens, at least the market can console itself with the consideration that London cannot keep it up for ever.

SECTION III

FINANCIAL TIMES SURVEY

The economy is still performing well and short-term business prospects, for the larger banks at least, are brighter than a year ago, says **William Dullforce**. Yet business systems have been shaken in ways that emphasise the need for swifter change in institutional practices.

Good-bye to complacency



Bahnhofstrasse, where the banks' solid business systems have been rudely shaken this year — Ashley Ashwood

Swiss Banking
Finance & Investment

ZURICH'S Bahnhofstrasse, the habitat of the big Swiss banks and many foreign invaders, has experienced more angry argument in 1988 than for many a year.

The Swiss banks have coped competently enough with the sequels to the world stock market collapse of October 1987, but their solid – some foreigners would say stolid – business systems have been rudely shaken this year by events and pressures, mainly from outside, emphasising the need for swifter change in their institutions and practices.

Nestlé, Switzerland's own giant multinational, has been a principal source of shock. Its successful battle with another Swiss concern, Jacobs Suchard, to acquire Rowntree, the British chocolate manufacturer, drew world attention to Swiss corporate defences against takeovers, which were seen as being inconsistent with Swiss participation in global markets.

When, following the logic of its own actions, Nestlé last month removed the ban on foreign ownership of its registered shares, it set off what can only be an irreversible movement towards change in Swiss stock exchange practices. Modernisation of the Swiss equities market has become an urgent theme this year.

A public prosecutor in the canton of Ticino delivered another buffet to the Swiss fastness. He unveiled an operation in which he alleged that some SFr1.5bn ($1bn) of money emanating from Turkish and Lebanese drug trafficking had been laundered through banks and companies in Switzerland. Mrs Elisabeth Kopp, the Minister of Justice, was forced to resign over this particular scandal earlier this month.

Coming just after the US Congress had ordered the US administration to press other governments into imposing tighter checks on the owners of funds deposited with their banks, this revelation of money-laundering embarrassingly highlighted possible deficiencies in Swiss banking secrecy practices.

The Federal Council (government) announced that it would give priority to a new bill against money laundering, which it hopes to table next spring. The bill is contested by the banks.

The European Community's seemingly remorseless advance towards a single internal market, for financial services as well as goods, has also been the cause of much agitation.

In chorus, the three big Swiss banks – Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse – have threatened to take the underwriting of Swiss franc bonds and other securities business abroad, if the Government does not eradicate, or substantially ease, what they regard as iniquitous stamp duties on securities transactions.

Stamp duty has been a long-running target for the bankers, but they have stepped up the sharpness and co-ordination of their appeals this year, in the face of a seemingly intransigeant finance minister.

For the bankers, as the EC improves the efficiency of its own financial markets, the stamp duty is becoming an increasingly severe handicap in efforts to maintain Switzerland's standing as an important financial centre. No other European country imposes such wide-ranging charges on securities transactions, they claim.

With some justice, the bankers argue that, on a liberalised European capital market, it would be impossible to enforce the underwriting rules that keep the lucrative Swiss franc bond business in Switzerland. Without the removal of the stamp duty, the new issues business would almost certainly move to London.

The bankers have the backing of the Swiss National Bank on this issue, but Mr Otto Stich, the finance minister, goes on imperturbably insisting that, if he is to drop stamp duty, he wants compensation for a potential loss of SFr2bn in public revenue.

Swiss bankers have also started this year to consider seriously the implications of Europe 1992 for the type of business with which they are most closely associated – asset administration and, in particular, portfolio management for wealthy individuals.

Many believe that, with tax harmonisation lagging behind the liberalising of capital movements in the Community, they can expect a massive inflow of capital from tax evaders, eager to take advantage of Switzerland's banking secrecy.

Dr Markus Lusser, the new president of the Swiss National Bank (SNB), has warned against this assumption. Without ruling out the possibility of capital outflows from some EC countries "for fiscal reasons", he argued that such a development would not in the long-term boost Swiss banks' private portfolio business.

Switzerland would inevitably come under pressure to relax its "information practices" and to accede to EC regulations on the exchange of information for tax purposes. If it were compelled to give in to such demands, its trump card – banking secrecy – would lose its value.

In Dr Lusser's opinion, the strengthening of the EC is bound to weaken Switzerland's standing as a centre of asset management for private customers. He advises the bankers to concentrate on winning business from institutional investors.

The SNB view is contested, and the argument about future Swiss banking strategy is on. One man in a position to assess the possibilities is Mr Heinz Zimmer, the vice chairman responsible for the worldwide private banking activities of American Express Bank and president of its Swiss operation.

He supports Dr Lusser. Swiss bankers should not "bet on free marketing support from Europe 1992". Money managers with proven track-records should plan to provide specialist services to European institutions.

But, Mr Zimmer warns, the institutional business is currently by-passing the Swiss market, whose cost structure, cartel arrangements and tax disadvantages make it uncompetitive.

In Mr Zimmer's view, Swiss bankers have to re-examine critically all their present conventions and cartel arrangements: "After 1992, they will quite simply be absurd, totally opposed to the spirit of the new era in Europe."

Foreign investors' relationship with the Swiss equities market – another matter of crucial importance for Switzerland's future as a finance centre – has also been in the limelight this year. Nestle's action to correct its own discrimination against foreigners has focused attention on the distinctions and deficiencies of the Swiss stock market.

Again Dr Lusser, who is proving to be an active and outspoken central bank governor, has been urging far-reaching reforms on the stock exchange boards. On this issue the big banks are largely in line with him.

Resistance to change comes mainly from the smaller banks, which operate as brokers and issuing houses, stand to lose a protected business and do not have the financial resources to go along with the needed changes. However, the urgency of modernising both the technology and the practices of the stock market is now generally recognised.

Not all the current pressure for change on the Swiss financial establishment comes from abroad. Part stems from a generation shift which was illustrated by two banking events this year.

One was the eventually-aborted attempt to merge Bank Leu, the country's oldest and fifth largest commercial bank, with BZ Bank, a young and highly innovative concern founded only three years ago by Mr Martin Ebner.

The other was the acquisition of majority control of Banca della Svizzera Italiana, the sixth largest commercial bank, by Unigestion, a relatively small Geneva-based finance company, which was partnered by a New York real estate developer.

Amid the hubbub and concern about future strategies, the Swiss banks' regular business this year has developed better than was expected at the beginning of 1988.

Black Monday on the stock markets, in October last year, had badly hit the banks which function as brokers and issuing houses. An abrupt fall in commission income and losses on their own equity holdings prompted the three big banks to declare an average 3 per cent decline in net earnings in 1987.

Analysts and the banks themselves assumed that the cut in income from fees and commissions would continue to have a determining effect on bank profits this year. However, by the autumn the big banks were signalling a profit recovery.

The decisive factor has been the continuing strength of the world and Swiss economies which has led to an increase in the banks' lending and other commercial business and higher interest income to offset the drop in commissions.

A drive against costs and instructions in many banks, to halt the expansion in numbers of employees, has also helped. The smaller banks, which concentrate on asset management, have suffered most from the decline in turnover on securities business.

With the economy still performing well, the short-term business prospects, at least for the bigger banks, are brighter than they were at the end of 1987.

However, any residual complacency in the Swiss banking community about the long-term, and about the place of the Swiss financial centre in the Europe of tomorrow, has been smothered in the past year.

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Among the big banks, only Leu now expects a drop in earnings

A better year than was predicted

LAST YEAR saw the first overall drop in Swiss banks' net profits since 1978.

While gross earnings continued to rise and the tax burden remained unchanged, operating costs were up noticeably, and there was a further increase in the depreciation-and-provisions bill.

The top three – Union Bank of Switzerland, Swiss Bank Corporation and Crédit Suisse – all booked falls in net earnings of some 3 per cent after eight record years.

Until recently it was being claimed that there would be a further setback in 1988. Bank Julius Baer's analysts had said a 5 to 10 per cent decline in the profits of the so-called "big banks" (UBS, SBC and Crédit Suisse, plus Swiss Volksbank and Bank Leu) could not be excluded, and those of Nordfinanz-Bank forecast a fall by about 5 per cent.

Latest indications from the banks themselves are that these estimates are on the pessimistic side. This autumn, UBS and SBC hinted that earnings could be slightly higher this year, while both Crédit Suisse and Volksbank expect cashflow at least to be higher.

Of the big banks, only Leu expects a drop – and this after a 3.5 per cent rise in 1987 to an all-time high.

Other banks also appear to be expecting a slight improvement this year – including the members of the Association of Swiss Cantonal Banks. So combined profits should be back to the 1986 total.

Despite this, bank shares have remained pretty well in the doldrums. In early December the SBC bank-equities index was still some 38 per cent below last year's pre-crash level – and only marginally higher than the depressed post-crash price. This is the case in the face of what is now an average yield of some 3.8 per cent, which is more than double the current inflation rate, and almost equal to the average return on federal bonds.

Obviously, the investing public is far from regaining its former confidence in the banks. At the same time, bank equities were among those which suffered last month when Nestlé – as Switzerland's biggest company – decided to propose the opening of its share register to foreigners.

There seems little chance, however, that the big banks will go back on their restrictive registered-share policy, and both UBS and SBC have said they will not revise their statutes accordingly.

The overall increase in credit demand at home has recently been accompanied by a growth in bank loans to foreign borrowers. Although there will be a narrowing, rather than a widening, of interest margins for 1988 as a whole, net interest earnings show every sign of rising well.

In respect of other major elements of the banks' profit-and-loss accounts, commission earnings will be reduced by a noticeable fall in brokerage income following last autumn's stock-market crash, overall trading volumes having stayed well below 1987 levels. The marked weakness in share prices will also affect portfolio-management income – and, naturally, that from the banks' own equity holdings.

On the other hand, earnings from capital-market issues areup, thanks to a jump in bond and note floats by both domestic and foreign borrowers which has more than offset the drop in new Swiss equity issues.

Elsewhere, income from foreign-exchange and precious-metal trading seems to be running at about, or possibly rather above, 1987 levels.

In spite of the probable overall improvement in this year's results, the days are long past when Swiss bankers could rest on their laurels. Today, competition is much tougher. In Switzerland, a legion of banks and quasi-banks are fighting for business – quite apart from the outside challenge from insurance companies and pension funds in the important mortgage market and, starting next May, from the re-introduction of interest paments on post-giro accounts.

At the same time, foreign banks continue to build up their Swiss activities, while Swiss-based operations abroad are hindered by disadvantageous tax structures. The banks have realised this and reacted accordingly.

The past few years have seen a continuous series of measures to adapt to a rapidly-changing environment. These have ranged from the offer of increasingly sophisticated retail-banking services, through the modernisation of the (virtually bank-run) stock exchanges, to the extension of the issue syndicates for foreign Swiss-franc bonds or the opening-up of the Swiss markets for low-rating securities.

Despite the slight improvement, bank shares have remained pretty well in the doldrums. In early December the SBC bank-equities index was still some 38 per cent below last year's pre-crash level

The Swiss presence in foreign financial centres has grown substantially and continues to grow, not least in London,New York and the Far East. Simultaneously, the banking community has had to adjust to a number of demands aimed at countering the abuse of Swiss facilities. The most recent examples are the introduction of an anti-insider clause to the country's penal code, and the current accelerated move – in the light of the "Lebanese connection" – to clamp down on money laundering.

There are certainly signs that the commercial banks have ceased to be quite such a members-only club as was once the case. There is an increasing tendency to go it alone in the attempt to retain existing business and enter new markets. Apart from a growing divergence of policies and strategies, this would well mean the scrapping in time of some of Switzerland's long-standing "conventions" – inter-bank agreements on interest rates, commissions and fees.

There are also indications that there could be a certain reshuffle of bank ownership. Bank Leu, the smallest of the BigFive, this year seriously considered joining hands with themuch smaller BZ Bank Zurich – a move which finally ended intears – and last month placed a number of its shares with "acceptable" shareholders, obviously to guard against any attempt at undesirable stock purchases.

Elsewhere, such little banks as Solothurner Handelsbank andGewerbebank Baden were the subject of unfriendly take-over bids, the latter company now having passed in an amicable agreement into the control of the locally-based Brown Boveri subsidiary of the industrial concern ABB.

It seems quite likely that at least some of the numerous smaller banks could one day either be acquired by, or at least co-operate with, others, particularly as the demands on even the bit players in the Swiss financial community increase.

At the same time, more and more banks of all sizes will be looking for niche positions, at home and abroad, in which they can offer something different from the shop next door.

John Wicks

Key statistics on Swiss banking in 1986 and 1987

Category	Year	Number of institutes	Number of offices†	Personnel employed	Total assets SFrm	Net profit SFrm
Big banks*	1986	5	876	56,586	436,825	2,189
	1987	5	889	59,915	460,752	2,132
Cantonal banks	1986	29	709	16,112	154,570	471
	1987	29	722	16,949	167,481	495
Regional banks & savings banks	1986	215	640	7,697	69,821	215
	1987	214	658	7,990	76,082	228
Loan associations & co-operative banks	1986	2	1,243	2,598	23,048	36
	1987	2	1,242	2,651	25,387	37
Other banks	1986	197	480	22,405	121,018	1,191
	1987	202	494	25,018	126,781	1,197
Investment companies	1986	119	131	1,420	19,690	304
	1987	130	142	1,671	20,377	268
Branches of foreign banks	1986	16	31	2,351	18,178	147
	1987	17	30	2,329	19,694	98
Private bankers	1986	24	25	2,271	4,621	214
	1987	23	25	2,437	5,494	200
TOTAL	1986	607	4,135	111,440	847,771	4,769
	1987	622	4,202	118,960	902,248	4,650

† Head offices, branches, agencies, deposit account departments and a total of 35 branches abroad (1986: 30)
* Bank Leu, Crédit Suisse, Swiss Bank Corporation, Swiss Volksbank, Union Bank of Switzerland

Source: UBS/Swiss Banking in 1987

The top 25 Swiss banks

	Bank	Assets ($m)	Capital ($m)	Pre-tax profits ($m)	Pre-tax profits on assets (%) Rank	1987	1986	Capital/assets ration (%) Rank	1987	1986	Pre-tax profits/employee Rank	($)
1	Union Bank of Switzerland	125,521	7,626	851	3	0.71	0.78	5	6.00	5.71	3	40,771
2	Swiss Bank	114,390	6,855	722	5	0.65	0.71	6	5.99	6.15	2	42,904
3	Crédit Suisse	83,912*	5,174	583	2	0.72	0.79	3	6.17	5.86	4	38,811
4	Zürcher Kantonalbank	26,213	950	59	17	0.23	0.25	23	3.62	3.69	19	16,279
5	Swiss Volksbank	25,192	1,477	119	8	0.50	0.58	7	5.86	6.43	16	20,899
6	Bank Leu	11,510	857	58	6	0.51	0.47	1	7.44	6.73	5	38,810
7	Banque Cantonale de Berne	8,777	350	34	10	0.41	0.38	20	3.99	4.28	13	25,560
8	Banque Cantonale Vaudoise	8,090	458	53	4	0.68	0.66	8	5.66	5.34	8	31,636
9	Luzerner Kantonalbank	8,067	398	23	13	0.31	0.29	14	4.94	4.75	14	25,460
10	St Gallische Kantonalbank	7,774	354	na	na	na	na	19	4.55	4.39	na	na
11	Banca della Svizzera Italiana	6,358	458	56	1	0.89	0.82	2	7.21	6.10	9	29,761
12	Crédit Foncier Vaudois	6,009	281	29	7	0.51	na	18	4.67	4.80	1	84,172
13	Thurgauische Kantonalbank	5,953	284	15	15	0.25	0.26	16	4.77	4.70	15	23,940
14	Union Suisse Raiffeisen	5,144	122	8	18	0.15	na	25	2.37	2.61	17	17,551
15	Baselland Kantonalbank	5,066	242	17	12	0.35	0.36	15	4.77	4.85	7	31,702
16	Graubündner Kantonalbank	4,954	235	17	na	na	na	17	4.74	na	12	26,154
17	Basler Kantonalbank	4,549	225	14	14	0.30	0.29	13	4.95	5.02	10	29,280
18	Genossenschaftliche Zentral	4,344	267	19	9	0.45	na	4	6.14	6.45	6	32,619
19	Migrosbank	4,001	217	16	11	0.41	na	9	5.43	5.32	11	27,029
20	Aargauische Kantonalbank	3,977	201	na	na	na	na	12	5.06	4.83	na	na
21	Aargauische Hypo	3,524	186	na	na	na	na	10	5.28	4.77	na	na
22	Zuger Kantonalbank	3,469	109	8	16	0.25	na	24	3.13	2.54	18	17,199
23	Banque Cantonale du Valais	3,293	130	na	na	na	na	21	3.94	3.93	na	na
24	Kantonalbank Schwyz	3,195	120	na	na	na	na	22	3.77	3.98	na	na
25	Solothurner Kantonalbank	3,164	167	na	na	na	na	11	5.27	4.56	na	na
Total		486,446	27,744	2,701		0.61	0.66		5.70	5.84		36,499

* Unconsolidated figures

Source: The Banker

John Wicks profiles the country's fourth biggest bank

ZKB seeks more flexibility

Mr Walter Lüthy, general manager; the foreign exchange trading room; and a suburban branch of the bank, in Dübendorf

THE TERM "big five" for Switzerland's leading joint-stock banks is something of a misnomer. The Zurich Cantonal Bank (ZKB) has higher published assets than either Swiss Volksbank or Bank Leu, and is thus the fourth biggest in the country.

At mid-1988, its balance sheet totalled over SFr34.7bn, including some SFr24.3bn of clients' funds.

Like most cantonal institutes, the ZKB is over 100 years old. It was established following a referendum in 1870, the idea being the creation of a state-backed bank to support local farmers and small-scale businessmen who had been hit by a recent recession.

The joint-stock banks of the day had been concentrating their efforts on industry, railways and big business. Indeed, one member of the cantonal government who opposed the project was Crédit Suisse founder Alfred Escher.

The bank prospered, along with the economy it was helping to finance. Assets showed a steady rise, and since the 1950s have more than doubled every 10 years. This has meant a similar increase in the provision of capital stock by the canton to its current level of SFr975m.

Far from subsidising the ZKB, however, Canton Zurich benefits from its profitability: from 1987's record net earnings of SFr76.7m including carried-over profits, a total of SFr40.7m went as interest on the capital stock, a further SFr14.4m straight to the cantonal treasury, and SFr3.6m to a cantonal welfare fund.

Today, the bank has no fewer than 156 operations in the canton. Apart from its base in Zurich's Bahnhofstrasse, it has eight regional headquarters, an extensive network of branches and agencies – and even a city pawnshop.

In the agency sector, ZKB has both its own "full-time" agencies manned by bank staff and a remarkable collection of sub-agencies in such locations as post offices, agricultural co-operatives, shops and three country railway stations. These are popular with the public, and less popular with other banks as they are open for business on Saturdays.

An important part of the bank's business has traditionally been the granting of mortgages. The Swiss have the highest per-capita mortgage debt in the world, and the thriving canton of Zurich the biggest overall demand for mortgages in Switzerland. ZKB's mid-year figure of almost SFr17.4bn of mortgage assets was equal to nearly exactly one-half of the entire balance sheet.

An important source of refinancing lies in the substantial volume of 3 per cent savings accounts, which allow plenty of leeway even at the prevailing modest mortgage rate of 5 per cent. This will continue to play a major role in the bank's activities, says general manager Mr Walter Lüthy.

The economic attractions of the wealthy canton mean that new construction should remain lively, quite apart from a growing need for replacement and renovation. The same goes for other balance-sheet operations.

Although the canton is well served with banks, Mr Lüthy says there is room for more retail outlets, not least in connection with the development of new residential areas, the project for a suburban-railway system and the opportunities offered by electronic banking.

At the same time, the bank has been working hard to develop its non-credit business. Last year, this accounted for about one-third of gross profits. The main element here is that of securities brokerage, the bank having had a seat on the Zurich exchange since early this century. This was instrumental in raising commission income last year by 7.8 per cent to SFr120.7m, though it naturally dropped off noticeably after the October crash.

The bank is also working to increase such financial services as foreign-exchange and precious-metal trading, earnings from which rose by 13.6 per cent to SFr22.8m in 1987.

In capital-market operations, ZKB belongs to the Cantonal Banks' Issue Syndicate, as well as participating in its own name in individual issues, primarily those of Zurich-based borrowers. It also made the headlines last year when it launched – albeit not at the most opportune of times – 3.25 per cent bonds, linked to a warrant entitling holders to buy 100 grammes of gold at a price of SFr2,510 (early this month the corresponding market price was below SFr2,000).

Today the bank has no fewer than 156 operations in the canton

Despite its success to date, and the fact that local government has never tried to talk it into support measures for failing sectors of the economy, ZKB has long wanted to spread its wings a little. The aim is a revision of the current cantonal bank law, and corresponding amendment to the bank's statutes.

One important change here would be the introduction of participation certificates, non-voting stock which the bank would place primarily with its own clients. A number of other cantonal banks already offer this form of bearer equity. One cantonal councillor, in fact, presented an unsuccessful motion last year that the bank should be privatised by the issue of voting shares.

Another amendment would ease the restrictions on the bank's operations in other parts of Switzerland and abroad. As far as the out-of-canton domestic business is concerned, this would regularise such individual transactions as the granting of a mortgage to a client in respect of property elsewhere: it would not enable the opening of branches in other cantons, however.

In respect of foreign business, the bank had originally wanted the freedom to take the non-Swiss share of the balance sheet from its current statutory maximum of 5 per cent to a ceiling of 15 per cent. This was too high for the politicians, though, and it is now planned to raise the permissible limit to 10 per cent. Last year, the actual share was of only some 4 per cent.

The main intention, says Mr Lüthy, is to be able to "accompany our clients abroad".

The third move would be to remove the ban on ZKB participations in private companies. This would permit such operations as the creation of venture capital for small and medium-sized firms – and also enable the bank to convert its present credit position in Swiss Cantobank (Switzerland) into a real shareholding. This internationally-active company, based in Switzerland and with offices in London and Frankfurt, is a joint venture of the Cantonal Banks Association and Mr Werner K.Rey's company omni-holding.

These proposals, together with changes aimed at strengthening the responsibilities of the bank's management, have not been undisputed. There is a fear in some circles that the cantonal institute is trying to "behave like a joint-stock bank".

Mr Lüthy contests this and says ZKB has to have more flexibility in keeping with the importance of the cantonal economy. The revision now seems almost assured of success. On December 5 the proposals were approved in first reading by a majority of the cantonal council, and are expected to be finally passed by the council early next year. A referendum will then be held, probably next summer or autumn. If, as is expected, this also goes through, the amendments could come into force as of January 1, 1990.

Recently, Prof Leo Schuster, of the St Gall Banking Institute, said cantonal banks would do well to look at the possible advantages of some kind of privatisation or "a merger, primarily by regions, subsequently on a national basis".

Like his colleagues in other parts of the country, Mr Lüthy views this with scepticism. He does, however, stress the value of co-operation between the 29 cantonal banks – whether through Swiss Cantobank (International) or such existing domestic institutions as the issue and export-credit syndicates, the investment funds and the leasing companies. And a new co-operative venture is said to be on the way – the formation of a joint consumer-credit company.

PROFILE: RAINER GUT

Muscle and a timely merger

RAINER GUT leaves no doubt in his interlocutor's mind that his ambition is global.

"The world is my oyster. That is [National Bank President] Lusser's problem," he says, when it is suggested that the market in the underwriting of Swiss franc bonds will leave Switzerland in a couple of years.

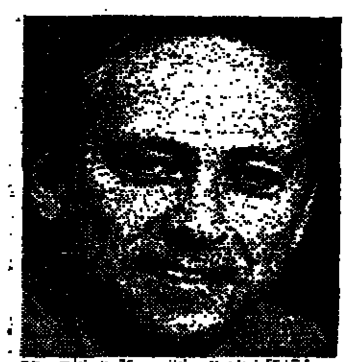
"I do not believe that will occur quickly, but it would not bother me. The institutions with the biggest muscle and the most professional execution will still do the business wherever it may be," he says confidently.

Switzerland's Big Three banks all affirm their intention of belonging to the small élite of truly global banks. But it is Crédit Suisse, the smallest of the three, of which Mr Gut, aged 56, has been chairman since 1983, that has created the sharpest international profile.

Its standing was further enhanced in October when it announced the creation, in a $1.1bn merger, of CS First Boston Inc, a privately owned investment bank, which gives Crédit Suisse virtual control of the big US securities firm and a powerful new instrument with a worldwide stretch. Mr Gut will be chairman of CS First Boston, when it comes into being on January 1.

The new structure offers immense potential for playing a key role on the international capital markets in the 1990s. It has evolved from Crédit Suisse First Boston (CSFB), a joint venture, of which the Swiss bank owns 60 per cent, which has already been leading the underwriting pack in the Eurobond market for years.

Crédit Suisse's international image has not always been so



Mr Rainer Gut

resplendent. Faults at its Chiasso branch lumbered it in 1977 with a huge loss, put at some SFr1.7bn; but what bankers remember most of that incident is the way in which Crédit Suisse absorbed the loss from its reserves without raising even a hiccough in the progress of its earnings.

Mr Gut clearly has good reason to trust in Crédit Suisse's "muscle". As for "professional execution", he declares, "If you want to compete with the Morgan Stanleys, Goldman Sachs, and Warburgs, you have to get their know-how, get into that [investment banking] culture."

This, Mr Gut explains, Crédit Suisse started to do when it negotiated what was seen in Switzerland as a dubious joint venture with White Weld in the 1970s. Swiss colleagues said Crédit Suisse was losing its identity.

That deal evolved into the successful CSFB operation which "made us highly visible to the multinationals and was very profitable". Crédit Suisse's co-operation with First Boston has now moved up another ratchet on to a global basis with the formation of CS First Boston.

It would take three to five years before this investment bank is properly integrated on a worldwide basis, Mr Gut estimated. A partner is still required for the Tokyo-based Far Eastern business, which will complement the North American and European operations.

His excitement at the prospects is evident. He pauses to stress that Crédit Suisse's commercial banking is still being developed alongside the investment banking arm but then expatiates on the advantages CS First Boston will reap from co-ordinating research activities.

Inputs from its multifarious research units will be fused into "one high quality product", giving customers a truly global span.

The basic strategy behind Crédit Suisse's recent development was set by the board in 1976 and had not changed substantially since, Mr Gut said. However, since 1983, when he took charge, there had been a more pronounced decentralisation and delegation of authority.

Subsidiaries have been given greater autonomy and allowed to develop their own identities. CSFB has been successful, in Mr Gut's view, because its managers were left free to act on their own and "we really respected that they had a different culture+.

Similarly, Crédit Suisse's German operation, based on the fusion of two acquisitions, Effecten Bank and Grundig Bank, is being allowed to develop its own style.

Starting with Mr Gut himself, Crédit Suisse has probably been the big Swiss bank most open to international influence. Mr Gut spent 20 years outside Switzerland before becoming a deputy member of the bank's executive board in Zurich in 1973.

He considers his most valuable experience to have been the four years he spent with Lazard Frères in New York, where he imbibed his sense for investment banking.

Under Mr Gut, Crédit Suisse has also become in the past couple of years a catalyst for change in the body of Swiss banking.

Mr Hans-Joerg Rudloff, the formidable German dealmaker behind CSFB's success in London who joined the executive board in Zurich two years ago, has been the prime mover behind the opening up to foreign lead managers of the big underwriting syndicate for Swiss franc bonds.

It was Crédit Suisse, flouting a ban by the canton of Zurich, that set up an operation in Zug to trade on the grey market in bonds, thereby recognising a market, originated by foreign banks, that the big Swiss banks had tried to quash.

Mr Gut puts Crédit Suisse solidly behind current moves to shake up the Swiss securities market. He rejects the charge that the big Swiss banks have been blocking fundamental changes to bring Swiss stock exchange practices into line with international.

Federal regulation of the exchanges rather than the current cantonal control; the opening up of registered shares to foreign investors; a London-type city code on takeovers; greater insight for the public into Swiss companies' affairs – all these reforms figure in the chairman's book.

But, asked what worried him most in the current environment in which Crédit Suisse has to operate, Mr Gut reverted to the global perspective.

A Japanese stock market with an average price-earnings ratio of 60 or more, resting on calculations of unrealised real-estate values, was frightening. "I do not think the Japanese have invented a financial *perpetuum mobile*."

More particularly, Mr Gut was concerned about the Japanese banks' capacity to "cover the world with offers of financial services, which they can source from low-cost capital".

Current international proposals for regulating banks' capital cover would also give the Japanese an advantage, as it would allow them to count hidden reserves against their securities portfolio. CS First Boston is understood to be looking for a Japanese partner.

The transformation of the US into the world's biggest debtor was another cause of apprehension, Mr Gut said. It was difficult to see how Mr Bush's new administration could reduce the US budget and trade deficits fast enough.

Higher US interest rates would probably be needed to keep foreign money flowing in to finance the budget deficit. He worried about the effect higher rates could have on the debt created by the numerous US leveraged buy outs.

William Dullforce

THE SWISS banking system, despite its traditional pride and caution, is proving no exception to the worldwide trend towards internationalisation.

Foreign banks are increasing in number, and even the most reticent members of the home-grown banking community admit that their presence has had some affect in shaking-up the system.

In the last 10 years, foreign institutions have shown impressive growth – at least, in numbers. At the end of 1977 there were 99 foreign banks in Switzerland. By the end of last year there were 128.

Foreign-controlled institutions defined as "bank-like finance companies" increased from 27 to 99 in the same period. In comparison, the total population – domestic and foreign – of banks and bank-like finance companies in Switzerland rose from 550 to 622.

Foreign banks, along with their Swiss counterparts, have enjoyed brisk growth in assets (in nominal terms, the total has more than doubled in the last 10 years) although the proportion of total assets controlled by non-Swiss institutions has shown only a modest rise. Between 1977 and 1988 the share accounted for by foreign institutions increased from 11.5 per cent to 13 per cent.

Banks have been attracted from around the world. European banks dominate, but North America and Asia – particularly Japan – are well represented.

The growth in the number of foreign banks appears unlikely to have been halted by the stock-market crash of October

Foreign banks: Ralph Atkins assesses their growing influence

Part of an integrated system

1987 – although balance sheets and profitability have almost certainly been affected.

In its commentary on the crash and the aftermath, in its latest annual report, the Association of Foreign Banks in Switzerland, warned:

"In the same way as other banking groups in Switzerland, the foreign banks are also affected by these developments . . . Although most banking institutions have shown satisfactory results, especially with regard to commission business, the foreign bank group must likewise face harder times in the future."

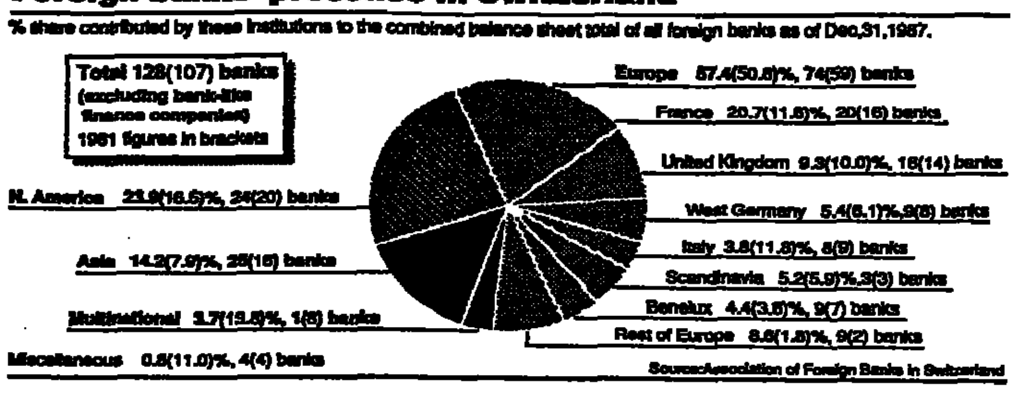
Raw figures and reflections on the crash, however, do not tell the complete story of the last few years. Foreign banks have become increasingly regarded as part of an integrated system.

As if stung by accusations of insularity, most Swiss bankers are anxious to stress that there is no resentment or discrimination.

Foreign banks have increased their influence in a number of areas. Notably, they have penetrated the main syndicate for issuing Swiss franc foreign bonds. In October, three West German banks – Deutsche Bank, Dresdner Bank and Commerzbank – joined the main Swiss banks in the syndicate that places about 70 per cent of bonds issued.

Foreign banks' presence in Switzerland

% share contributed by these institutions to the combined balance sheet total of all foreign banks as of Dec.31,1987.



Source:Association of Foreign Banks in Switzerland

Foreign banks were also instrumental in the creation of the grey market in bonds – pre-market trading before the end of the public subscription period for new issues.

Their influence almost certainly extends to other sectors where the results are less tangible. The clash of foreign culture with domestic practices has undoubtedly encouraged innovation and competition across a range of services. It has led Swiss bankers to think perhaps more deeply about moving towards more common world banking fashions, and about the possible effects of the creation of a single market among European Community members from 1992.

That said, it is not a completely symbiotic relationship. Some differences and tensions do appear to exist between the foreign and domestic sectors.

Snatching domestic business from domestic banks, for instance, has not been easy. Industry-bank links are strong; often Swiss banks will have representatives on the advisory boards of big companies.

Mr Mark Preston, senior assistant manager at Lloyds Bank in Zurich, said: "On the commercial side, we accept that we are not going to be the Swiss customers' major bank. Nor do we really want to be. We are a compact organisation with an infrastructure not as great as the high street banks."

He said Lloyds relied on its size to be agile, adding: "We are always on the look-out for problems to which we can provide new solutions."

Neither is it necessarily easy for, say, US banks to secure business from US companies operating in Switzerland. Often banking relations are inherited when a going-concern is purchased.

Some foreign banks have concentrated on niche areas within the system – US banks, for instance, have often played on their relative strengths as securities traders. And even those offering a wide range of banking services have focused on particular sectors, especially international services.

Mr Pier-Luigi Quattropani, executive vice president of Handelsbank NatWest, said that, within Swiss industry, there was no discrimination. "If you have a good idea and a good product, then you can easily enter the industrial market," he said.

Handelsbank NatWest itself has carved a dominate position as lead member of the second largest bond syndicate which accounts for about 7 per cent of public issues.

There is a great emphasis on reciprocity. Domestic banks appear willing to embrace counterparts from countries where Swiss banks enjoy equal access to their banking system, but for others the reception is more frosty. Indeed, there is pressure to change banking rules so that full reciprocity would become a still more important condition for a successful foreign operation in Switzerland.

In July, Nomura, Japan's biggest securities house, was awarded a full Swiss banking licence, suggesting that problems over reciprocity with Japan were gradually being resolved.

The foreign banks appear to accept without resentment that change in the Swiss banking system is slow – indeed, it is seen as a sign of strength that will continue to help the international sector flourish.

One factor that could possibly check future growth is the problem of recruiting personnel. Foreign banks face a tough domestic labour market. Switzerland has a small population and low unemployment, making professional staff a valuable commodity. There can also be difficulties in negotiating work-permits.

The stock market: changes in corporate practice are needed

The cocoon may be splitting

THE SWISS stock exchanges have experienced a curious year.

The mood has been mostly dull and unexciting, but the market has seen eruptions which, without interrupting the general sluggish trend, have signalled considerable turmoil below the surface.

Both investors' overall wariness towards Swiss equities throughout the year and the flurries of turbulence, such as that last month caused by Nestlé's decision to open its registered stock to foreigners, reflect an awareness that alterations in Swiss bourse and corporate practices are becoming increasingly urgent.

By the end of November the new Swiss index had advanced by only 19 per cent since the beginning of the year. The Swiss market has been trailing behind most other major exchanges in recovering from the crash of October, 1987.

The decline in turnover — just over 15 per cent in the first 10 months in Zurich — showed a less marked difference from other markets, but prices simply refused to take off.

Concern about external happenings, notably the movements of the dollar and the failure of the Reagan administration to tackle the US budget deficit, set the mood on the market for several months, mainly because there were no other elements to stir it.

Throughout the year analysts wrote up in vain the market's chronic undervaluation of Swiss equities when judged against fundamentals. Investors simply sulked.

The foreigners, on whom the Swiss market relies to stimulate business, were very slow to return after the October crash, when the prices of the bearer shares and participation certificates in which they can invest plunged more precipitately than the registered stock held mainly by Swiss.

Feelings, at least among Anglo-Saxon investors, about Swiss stocks were not improved by the battle between Nestlé and Jacobs Suchard, two Swiss companies, for Britain's Rowntree.

That Swiss companies should expand by buying foreign enterprises, while enjoying immunity to takeovers against themselves, seemed indefensible to some.

When, after the summer, the foreign investors appeared to be plucking up their courage, Nestlé exploded its bombshell and the foreigners howled as they saw the value of their bearer shares abruptly tumble while Swiss holders of registered stock reaped tidy profits.

Another debilitating factor has been the behaviour of the big Swiss institutional investors.

Pension fund managers, induced by changes in the law and by the five-year bull market, had started to extend their holdings of Swiss equities before October 1987.

They retreated swiftly into fixed-income holdings, and have been extremely reluctant to return and give the Swiss equities market some volume.

Among the minor eruptions marking the year was a bout of speculation in the stocks of insurance companies, regional banks and breweries during the summer.

This speculative trading derived indeed from the notion, eagerly promoted by analysts, that Swiss stocks were priced well below their intrinsic value. Small insurance companies in particular were regarded as ripe for takeover by stronger partners.

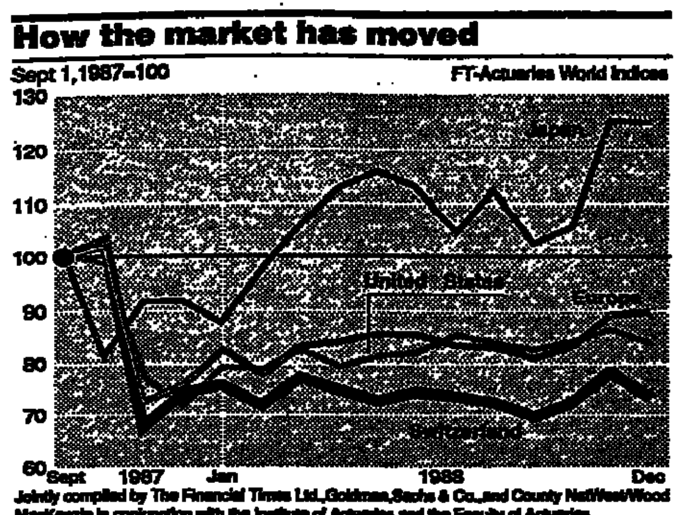
Speculation focused on relatively low-capitalised companies and concerned mainly their registered shares. It therefore had only a marginal impact on the stock exchange indices.

Nestlé's announcement that it was lifting the block on foreign ownership of its registered shares also made only a blip in the General index.

In contrast, it wrought abrupt changes in the sub-indices, that for bearer shares falling by well over 4 per cent in one week while that of the registered stock climbed by 9 per cent.

How the market has moved

Sept 1,1987=100 — FT-Actuaries World Indices



Jointly compiled by The Financial Times Ltd, Goldman,Sachs & Co.,and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

It also highlighted serious technical deficiencies in the Zurich exchange which severely inhibited trading in Nestle shares on the day after the announcement.

Feverish argument among bankers, traders and investors about the merits and manner of the Nestlé move illustrated the real question that it raised. Could the Swiss equities market continue to function properly, as long as it followed rules that keep it cocooned from international developments?

Dr Markus Lusser, the new president of the Swiss National Bank, had already posed in September the question whether the Swiss bourses could hold aloof from developments in European exchanges, as the Community moved towards its single market for financial services, and still remain competitive.

In iconoclastic mood, Dr Lusser enumerated a long list of reforms he considered necessary. Among these were:

■ The introduction of a system that would enable investors to check that their orders had been properly executed, and the prompt publication of both prices and trading volumes in individual stocks.

■ Regulations and taxes to be changed, to allow for the introduction of market makers, a change that could have a dramatic impact on the future of the smaller stock exchange members.

■ Admission rules required drastic revision to remove discrimination against foreign stocks.

■ Much fuller disclosure from Swiss companies, including the publication of hidden reserves, was needed if the Swiss market was to avoid isolation from other European markets.

Dr Lusser also came down heavily against another source of foreign discrimination, the long-established Swiss corporate practice of denying foreigners the right to buy registered stock.

Finally, the SNB president called for federal regulation of the Swiss stock exchanges, which would mean doing away with current autonomous cantonal controls that promote jealousies and delay reform.

On the whole, the Swiss financial community, and most significantly the big banks, have rallied to Dr Lusser's arguments. Some of the reforms he advocated were already in the pipeline. His intervention could hasten their implementation.

Others depend on the abolition of, or reductions in, the stamp duties, which Mr Otto Stich, the finance minister, is still resisting.

The Swiss Bankers' Association followed Dr Lusser's prescription with the publication of its own study and proposals for reform of the exchanges. It came down heavily in favour of the introduction of a nation-wide electronic bourse, a scheme on which the tripartite stock exchange association (linking the Zurich, Geneva and Basle bourses) has already started work.

In short, it is clear that the Swiss are reacting, both to the challenge posed to the Swiss equities market by the EC's co-ordination of its financial markets and to the mounting criticism of foreign investors.

The success of Soffex, the fully electronic Swiss options and financial futures exchange started in May which is now launching a Swiss market index option, augurs well for their ability finally to get things right.

William Dullforce

BONDS

A good year for placings

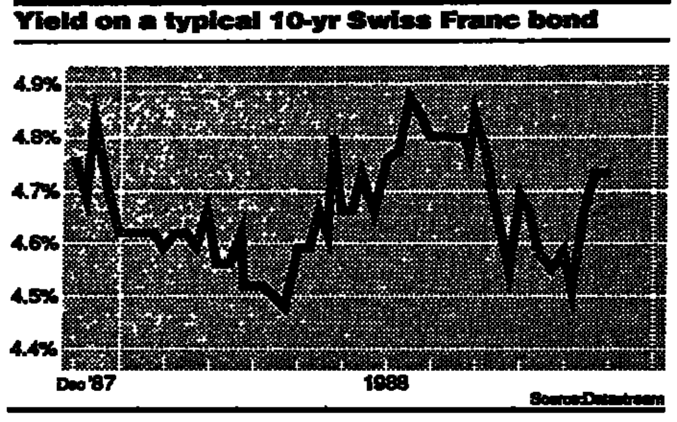
THE SWISS franc foreign bond market in the past year has displayed both its strengths and its judicious attitude to the evolution of world capital markets.

The market for Swiss franc bonds issued by foreign organisations hosted the return, after a 70-year absence, of the Soviet Union to the international public bond market. At the same time it has moved — at least to some extent — towards a less formal, more market-orientated, system of syndicates.

In terms of placings, it has been a good — possibly a record — year for the market. The stock-market crash of October 1987 prompted strong flows out of equities and into the more secure and less volatile bond market during the first half of this year. Yields on a 10 year bonds fell from a typical 5 per cent at the end of 1987 to near 4.5 per cent by April and May.

The pattern has been erratic, however. The market lost some of its momentum during the summer before picking up more recently. By the end of November, total placings (including both public offerings and private placements) for the year totalled nearly SFr37.5bn. That was clearly ahead of the SFr35bn total for last year, and a final spurt could see the total match the 1986 record of SFr42bn.

Yield on a typical 10-yr Swiss Franc bond



Source:Datastream

It is difficult to disentangle the causes of this relatively buoyant performance. The year has thrown up a number of challenges for the market — both externally and from within — which could possibly make the raw figures understate the market's true resilience and potential.

On the economic front, strong world growth has reduced the need of governments and companies to borrow. Speculation and uncertainty about the US presidential elections also produced ups and downs, forcing the main players to "look for windows" in the words of one bank vice president.

Throughout a large chunk of the year, the Swiss franc has seemed to be weakening — partly because of the appreciation of rival European currencies, such as the Spanish peseta. This is likely to have had a depressing effect on Swiss franc foreign bonds, as investors prefer a currency about to depreciate so their liabilities fall in real terms.

If the Swiss franc is already weakening, its next move is more likely to be upwards. Indeed, towards the end of this year, a tighter control of the money supply by the Government has led to some appreciation.

Stock and Bond Issues

	1987	August 1988	September 1988	January–September 1987	January–September 1988	Change
Switzerland[1]	SFrm	SFrm	SFrm	SFrm	SFrm	in %
Domestic issues[2]	11,344	856	1,486	8,528	10,587	+ 24
Foreign issues[3]	36,035	2,992	4,035	29,372	33,036	+ 12
Domestic stock issues	5,152	4	370	4,597	2,019	− 56
Total	52,530	3,852	5,873	42,497	45,642	+ 7
Euromarket[4]	$m	$m	$m	$m	$m	in %
US $ issues	61,203	5,946	8,531	56,073	61,789	+ 10
DM issues	14,601	1,352	2,542	10,825	18,148	+ 68
ECU issues	7,654	293	849	6,503	7,543	+ 16
Other issues	61,976	3,509	4,092	50,021	57,280	+ 15
Total	145,434	11,100	16,014	123,422	144,760	+ 17
USA[5]						
Yankee Bonds	5,911	650	1,450	3,111	6,285	+ 102

[1] New issues (source: SNB) [2] Public issues [3] Incl. notes [4] Source Euromoney [5] Source: OECD

Less easy to assess have been changes to the rules of the big bank syndicates. The market is dominated by a number of syndicates, which have to be domiciled in Switzerland and via which transactions are spread between many banks.

It is the main syndicate, including the "big three" banks (Crédit Suisse, Swiss Bank Corporation and Union Bank of Switzerland), which holds the commanding position. In 1988 it is set to account for about 70 per cent of the total value of public offerings.

The main change, introduced at the start of this year, removed the obligation of all syndicate members to participate in public bonds arranged by the syndicate. At first sight it might seem that this would intensify competition, encouraging banks to reject unacceptable terms or seek to disrupt other members business.

In practice, although it is still early days, this does not appear to have happened. Some banks have taken advantage of the change to remain out of an issue, but there are no black lists kept of persistent offenders. Indeed, members say the effect has been to increase co-operation between participants with individual banks able to play on their own strengths.

Mr Enrico Bernasconi, first vice president, capital markets, of Swiss Bank Corporation, said: "The fact that we have this freedom has pulled us together. If we were forced, we would do more more nasty things."

The past year has also seen the main syndicate opened up to foreign banks with the admittance of three West German banks in October — a development reflecting both the freeing up of the syndicates and the growing internationalism of the Swiss banking system. It was foreign banks that lead-managed the 10-year bond for the USSR in January.

At the same time, the grey market in foreign bonds — pre-market trading in bonds before the end of the public subscription period — has continued to develop, pushing trading practices nearer to common Euromarket practices.

However, these trends away from a strict cartelised market has only been taken so far. There is a limit to how far the big three banks will tolerate the expansion of the syndicates — the emphasis is on admiting only those who can contribute extra business.

"If everybody is allowed in the syndicate, then we might as well forget the syndicate," said Mr Hans Rudolf Zehnder, senior vice president at Crédit Suisse.

Similarly, there is a consensus that the syndicates, as they exist at present, are likely to remain. It is a system that is mostly unrestricted and that works well, says Dr Arthur Wulkan, first vice president of UBS. "There are no restrictions such as on the amount of borrowing or the life-time of a bond. The market is very liberal and flexible. The syndication requirement imposed by the Swiss National Bank is the only limit to the market," he said.

Moreover, there is still a striking weakness in the secondary market. The tax structure, the tendency for investors to hold many bonds until maturity and the stability of interest rates (particularly in comparison with, say, the US) are largely to blame for the thinness of trade.

Perhaps a more striking challenge facing the market, however, is assessing the impact of the creation of a single market among European Countries from 1992.

Few Swiss bankers are willing to speculate officially on its effects, but privately there is much confidence that the country's traditional strengths — the high quality, stability and discreetness of service of its banking system — will continue to attract custom.

Ralph Atkins

The grey market is here to stay

THE EVOLUTION of the "grey market", in which new bond issues are traded before the end of the public subscription period, is symbolic of many of the pressures facing the Swiss bond market.

It is a young market, formed less than five years ago, and small. Yet it has raised questions in the minds of both bond issuers and traders about how far the Swiss system will move towards a more aggressively competitive structure.

The market, pioneered around the end of 1983 by Chemical Bank and Citicorp, has provided a profit centre requiring trading expertise, but outside the underwriting syndicates that dominate the issuing of bonds.

The grey market in Zurich, however, is forbidden under a 1912 stock exchange law that prevents trading before the subscription period of an issue has ended.

It was not until this year that one of the "big three" banks stirred. Crédit Suisse began trading in June, and now says it has at least a 50 per cent market share. Its operation is run from Zug, outside Zurich, by just two dealers and two assistants.

The other two main banks — Union Bank of Switzerland and Swiss Bank Corporation — refuse to speculate about whether they may enter.

The entry of Crédit Suisse was a milestone, increasing the market's recognition among the pillars of Swiss banking. "The grey market became a reality, and that meant getting involved," said Mr Hans Rudolf Zehnder, senior vice-president.

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It is too early to assess long-term implications. Trade during the summer was quiet, picking up only more recently, and any announcement by UBS or SBC could have a profound affect.

Other factors have complicated the picture. In October, Amtrade Partners, set up by American Express and 15 traders from Chemical Bank to exploit the grey market, announced that it needed to "restructure and rethink". This seems unrelated to the Crédit Suisse move, and probably reflects internal disputes between partners, but could lead to further changes in the market's organisation.

From the sidelines, UBS and SBC hardly appear enthusiastic. "Given the fact that the volume handled by the grey market is rather limited, in our view the grey market is over-valued," said Dr Arthur Wulkan, first vice president at UBS.

Mr Enrico Bernasconi, first vice president, capital markets, at SBC, said the market was useful for banks without a sales organisation that could just display a price on a computer screen. It could also be used, he said, by banks to get hold a bond issue in which they are not involved. But he remained sceptical about how prosperous the long term would be.

That said, there is a consensus among participants and observers that the grey market is here to stay, if not expand. Pressure exerted by smaller banks — particularly from abroad, it is thought — will ensure there will always a demand for an informal market beyond the formal syndicate structure used for placing bonds. In other words, if the all the big three were to enter and dominated trading, others would re-invent it.

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For Crédit Suisse, its operation in the grey market is a useful tool, giving an advance guide to prices and extending the range of services it can offer to clients. "It is small, but we believe it is efficient that way," said Mr Zehnder.

Less tangible are the effects that the market will have on competition generally. In the best case, grey dealing could guide the cost of new issues, promoting more aggressive deals and more competitive terms for borrowers.

There is some evidence that this is happening in the market for Swiss franc foreign bonds, with the grey market influencing investors' decisions and helping to balance supply and demand.

Its existence could also be having a psychological effect on the price-making decision processes in the major bond issuing syndicates. Dr Heinz Zimmer, vice chairman of American Express in Geneva, said: "Switzerland should not be an island in the world. It needs to adopt these new techniques in a gradual way."

Ralph Atkins

Swiss companies' defences against takeovers have become the object of lively debate this year

Keeping raiders at bay

THE RECENT decision by Nestlé to open its stock ledgers to "foreign nationals and institutions" has again focused attention on the negotiability of Swiss companies' registered shares.

Ironically, it was the same firm whose ban on the sale of registered stock to foreigners had earlier this year led to considerable resentment during the initially unfriendly takeover bid for Rowntree.

Still more ironically, claims of discrimination have now been replaced by criticism that the lifting of the ban has meant a loss of value for Swiss bearer equities in international portfolios.

In fact, the whole question of corporate self-defence mechanisms has been the subject of heated debate in Switzerland itself for well over two years. Long before Nestlé reversed what had seemed an irreversible policy, it had become obvious that companies would have to review the ways in which they warded off uninvited take-over bids. The registered share has been — and will remain — a powerful shield against attackers.

Originally, this category was largely the preserve of family companies which wanted to keep outsiders at bay. During the war, major firms then began to fear acquisition by foreign interests and feel the need to prove Swiss nationality and consequent "neutrality". The Sulzer brothers' engineering concern paved the way here in 1943, by converting its bearer shares into registered stock. Others followed with registered-share issues.

After the war, apprehension was concentrated first on take-overs by the Americans and later, during the petro-dollar era, by Opec interests. Nestlé introduced registered stock in 1969 and the big banks in the 1970s.

It was also Sulzer that set a trend, when it invented the participation certificate in 1963. Similar to the existing — and now rare — dividend-right certificates, but differing from these in that they had a nominal value, this category of non-voting bearer equities soon became very popular. They allowed substantial issues of equity capital and equity-linked bonds, as well as serving as a form of payment in acquisitions — all without risking disruption of Switzerland's traditionally highly-respectful shareholder meetings by the introduction of new votes.

A further, less direct, protection for boards lies in the proxy voting of the banks. At most general meetings a very considerable share of voting stock is represented by shareholders' banks who, unless instructed to the contrary, usually vote in favour of the board. Since there are few boards without bank-delegated directors, this means that that dissident shareholders can seldom win the day.

Use of the stock ledger as a defensive weapon began to come under fire in 1986, when the retail concern Usego-Trimerco refused to enter a group of Swiss shareholders close to the privately-owned discount group Denner into its register, thus depriving them of voting rights and what would have been the gaining of control.

This was followed by a long series of other cases, almost all of them wholly domestic battles. The most important of these were when the food company Hero successfully kept Jacobs-Suchard from acquiring control, and last autumn when Sulzer fended off a shareholder chain centred on the Lugano financier Dr Tito Tettamanti.

Although foreigners are excluded from holding registered shares in nearly all Swiss companies — exceptions other than Nestlé include the temporary-employment concern Adia and the floor and wall-covering manufacturer Forbo — there was little ill feeling abroad until early this year.

It was then that Swiss companies departed from their normal practice and launched unfriendly take-over bids in other countries — first Hoffmann-Laroche against Sterling Drug in the US, and then both Jacobs-Suchard and Nestlé against Rowntree in the UK.

It suddenly became clear that Swiss companies could make an assault on foreign firms, but were themselves virtually impregnable.

Resentment abroad was strengthened by a subsequent parliamentary proposal in connection with a revision of Switzerland's equity laws. This favours a restriction of the (currently often highly arbitrary) reasons for non-registration, but also expressly permits "foreigner status" and a maximum-stake provision as specific grounds. This is seen by many Swiss as inopportune at best — and possibly unacceptable by the European Commission and in contravention of OECD guidelines.

The way in which stock-ledger restrictions are applied is due for a change. There has been considerable indignation in Switzerland at what is widely seen as abuse of the instrument — which in one case, that of the life-assurance company La Genevoise, led to the threat of suspension from stock-exchange listing.

The new equities law will certainly make it less easy for boards to close the register to shareholders as they think fit. There is even talk of considering a listing of registered stock on the bourse separately, in a kind of "B" category.

This is far from meaning the demise of the registered share, which has moved up much closer to the price of bearer stock since the Nestlé move. Admittedly, the Nestlé decision has not yet been followed by any other firms — indeed, such top names as Union Bank of Switzerland, Swiss Bank Corporation, Swiss Reinsurance, Sulzer, Ciba-Geigy and Sandoz have expressly said they will not open up the register to foreigners. But the expectation that others will eventually follow suit is keeping registered-stock price up. Also, a few banks have recently contravened a 1961 agreement not to buy registered shares on behalf of foreigners — although they seem to have come to heel after criticism within the Bankers' Association.

Nor will the Swiss defences be fundamentally weakened. Registration will certainly not be open to all comers, not least in view of the increasingly common maximum-stake rule: Nestle's board is proposing to incorporate into the statutes a 3 per cent holding limit for registered stock, as well as a voting ceiling of 3 per cent of total capital.

As far as participation certificates are concerned, these have become much less of a draw. These bearer equities fell in value by almost one-half after Black Monday and dived again, together with bearer shares, after last month's Nestlé move.

This is naturally accompanied by the continuing disadvantage of disenfranchisement. One company — EMS-Chemie — recently converted its participation certificates into bearer shares, and others are said to be looking at future issues of voting rather than non-voting bearer stock.

In respect of banks' proxy votes, the Swiss Bankers' Association last month complemented existing guidelines by spelling out, "particularly ... in the light of recent experiences in connection with shareholders' meetings", that clients should, where time permits, be informed of especially important points an an AGM agenda and asked for a ruling on a proxy vote.

For all these developments, Swiss companies will remain very safe from onslaughts, whether domestic or foreign. Their safety from unexpected attacks could, in fact, become ever greater. The stock exchanges and such major banks as UBS and SBC are now suggesting Switzerland might do well to introduce "Anglo-Saxon" rules laying down compulsory notification of the acquisition of 5 or 10 per cent of a company's capital.

John Wicks

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Equities and bonds may vacillate, but gold is constant

Zurich's precious tradition

A SHORT walk down Zurich's opulent Bahnhofstrasse, where top-class jewellery shops mix with bank offices, should be enough to convince anybody that Switzerland's strength as a centre for gold and precious metal trading remains untarnished.

Despite tough competition from other gold centres and from increasingly internationalised capital markets, Zurich's traditional importance as a market appears intact. Together with London, it dominates trading for both investors and industrial users. One estimate puts the share of the world's gold supply channelled through Zurich at 60 per cent.

Amid much volatility in equities and bonds during the past year, the precious-metal market has been a source of stability – and profit – for the leading banks. Actual turnover figures are not published (the emphasis is on discretion) but, despite weak gold prices in recent years, there is no reason to suppose activity is anything other than buoyant.

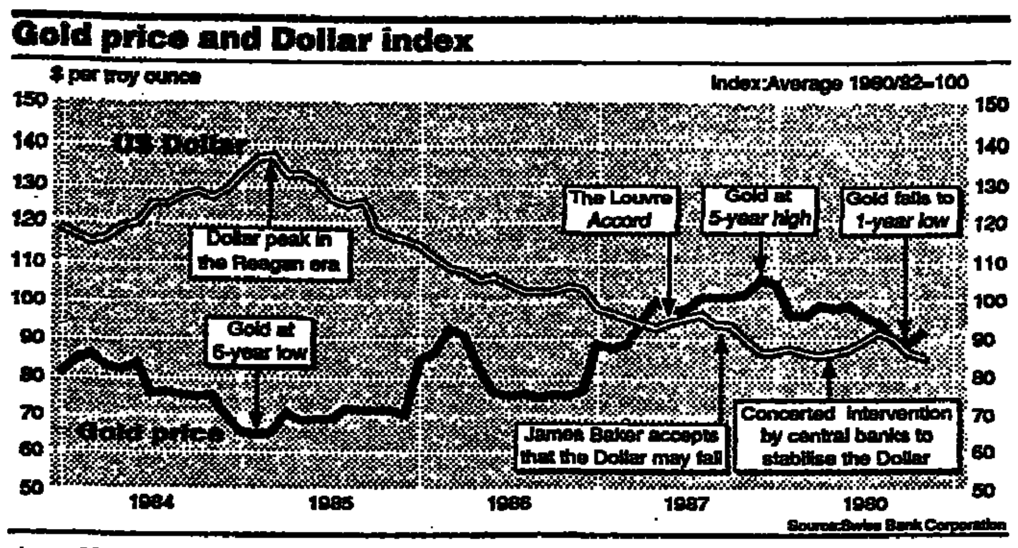
Since the heady days of the 1970s, when gold was in much demand, physical turnover has undoubtably shrunk to perhaps less than half of its peak. But this has been offset by a big expansion in the "paper market" – that is, instruments such as forward transactions or options and other products.

Zurich's strength owes little to natural advantage, but more to its tradition as an expert banking centre. Indeed, at first sight, there seems no logical reason why it should have developed at all – Switzerland is hardly rich in gold mines, it has no colonies to be depleted, almost no energy resources, and lacks direct access to cheap transport facilities such as sea ports.

Instead it has played on other advantages. Imports and exports have historically been unfettered, despite the sensibilities of trade with major gold producers such as South Africa or the Soviet Union. It also benefits from a stable political system and a stable currency.

Switzerland has a tradition of precision engineering – notably jewellery and watchmaking. The gold trade generally has benefited from the increasing number of industrial applications, particularly in the field of electronics, although the emphasis is increasingly on using expensive gold more efficiently. The gold market, unlike others in Switzerland, is also relatively unrestricted by the tax system.

Gold price and Dollar index



Source: Swiss Bank Corporation

The banks themselves have offered a complete range of services, from transportation to back-up financial services. The "big three" – Credit Suisse, Swiss Bank Corporation and Union Bank of Switzerland – have their own refining facilities, as well as expertise in new trading instruments.

Zurich's strength owes little to natural advantage, but more to its expertise as a banking centre

The increasing complexity of the business means greater value on the specialist knowledge of traders. In one bank young traders work for 18 months in a training team and are expected to have a good knowledge only after a further two years.

At the same time, Swiss investment managers continue to prescribe gold as an important part of an investment portfolio, even in times of relative economic prosperity with solid world-wide growth, mostly subdued inflation and generally stable currencies.

Dr Alex Hinder, vice president of Vontobel Asset Management, said: "If you look at the longer-term perspective, gold has always moved in line with general inflation, so in the long run it is a good hedge. It is also good to have a physical asset in your portfolio."

As a profit centre, gold and precious-metal trading probably ranks below bond and equities for most banks, but it tends to be more stable. Some banks have specialised in just the paper-trading side.

The strategy for banks like Swiss Bank Corporation is to develop both the physical and paper sides. Mr Alfred Schneider, first vice president, precious metals, at the bank said: "Because we are on two legs, we can probably overlook the market better than someone who is only in one area."

The Zurich market, unlike counterparts in other countries, operates without a formal organisational structure or official involvement. Rather than compete aggressively within a market of limited size, the big three banks have a gentleman's agreement to operate a gold pool. It means there is much co-operation between the members – together they have instituted a Zurich silver fixing, and set up their own broking arm.

Co-operation is only taken so far. There is competition between the major players over big deals and in protecting areas in which banks believe they have a strength – but it is not fierce competition. Unlike, say, foreign exchange markets, the gold and precious-metal trade lacks size and depth.

Mr Urs Seiler, senior vice president at Union Bank of Switzerland, said: "It is a very friendly and very constructive competition. It is the same sort of competition as exists between London and Zurich."

Looking further ahead, getting the right mix of competition and co-operation could prove crucial for long-term prosperity. The Zurich gold market faces challenges both from the creation of a single market among European Community countries from 1992, and from trends in the supply and demand of gold.

The single market could leave Switzerland – not an EC member – excluded from a large chunk of its client base. Privately, the banks appear confident that there will still be room for its business.

The big banks have developed a network of branches inside the EC, while their expertise and strength as a discreet trader will continue to work to their advantage. Many large transactions can be sensitive for central banks or others – and are easily detected from turnover figures if the market is thin.

Also posing a possible threat is the world-wide expansion of output from the gold-producing countries. Some are also trying to widen their trading relations (often for political purposes) or sidestepping the market to go direct to end users.

Again, the strength of the Zurich market will rest on its expertise and skill, rather than any natural advantage. "Swiss banks do have the advantage of knowledge. We have been through a century of learning," said Mr Seiler, of UBS.

Ralph Atkins

INSURANCE

Listed players take a knock

INSURANCE is big business in Switzerland. Last year, 123 insurers and reinsurers booked overall premiums of almost SFr40bn (£14.8bn). Including their subsidiaries, these amounted to an estimated SFr58bn.

The risk-conscious Swiss are their own best customers, with some 16 per cent of family budgets going on social security and private-policy premiums. At the same time, Swiss companies number some of the world leaders – such as Zurich, Swiss Re, Winterthur and Swiss Life – and foreign business accounts for nearly half of parent-company premiums and more like two-thirds of group income.

In 1987, gross premiums grew by some 7.5 per cent to a new record; net profits were generally higher, and underwriting losses in the non-life sector lower. Leading companies are already expecting further good results in 1988.

For all that, Swiss insurance firms have been travelling a frequently rocky road over the past couple of years. Parent-company earnings from foreign subsidiaries and foreign investments were depressed by the continued strength of the Swiss franc. Reinsurers, in particular, were hit by a massive rise in large-scale claims during calendar 1987. And all kinds of insurers suffered in their role as major institutional investors from last autumn's stock-market crash.

The situation was especially marked among pension funds. These had just started to take advantage of new regulations, enabling them to expand their holdings in shares, when the crash caught them. Their consequent mistrust of the equity market is one reason why Swiss borses have seen only a very gradual improvement during 1988.

The sluggish recovery of the Swiss share indices has, in its turn, affected the investment income of all insurers. Recently, the listed insurance companies have themselves seen their stock prices knocked askew on Swiss markets.

Last month's decision by Nestlé to open up its stock ledger to foreigners resulted in a run particularly on the insurers' registered shares, and a simultaneous flight from their bearer titles. The assumption was that the internationally-active insurance companies would not be long in following Nestlé's lead. This has yet to happen.

There is also some doubt as to how free other insurance firms would be to "do a Nestlé", in the light of the law restricting sales of Swiss real estate to foreigners. Like the major pension funds, private insurers have a considerable share of total assets in the form of bricks and mortar.

Long before this, Swiss insurance companies had been attracting a great deal of attention on the part of investors. Before Black Monday, the Swiss Bank Corporation index for insurance shares had reached 885.5 points, or a p/e ratio of about 50. A month later they had dived by over 40 per cent. They returned this year to a high of 682, or a p/e of just under 40, before the Nestlé incident.

Investors were interested not just in the shares but also in the companies as such. A major reason for the otherwise low-profile insurance industry having stayed in the Swiss headlines this year has lain in the – often unfriendly – attempts to acquire the companies themselves.

Insurance firms have been travelling a rocky road. Parent-company earnings from foreign subsidiaries and foreign investments were hit by the continued strength of the Swiss franc

One of the most important moves of this kind was disclosed early this year, when Baloise took defensive action to ward off a hostile acquisition attempt on behalf of an unnamed (probably French) group. The board scotched this by lowering to only 1,000 the number of registered shares which would be entered into its stock ledger for a single shareholder, the unwanted minority participation then passing on an interim basis to Swiss Bank Corporation.

Another foreign firm, probably the German Allianz group, then tried to buy the Lausanne-based insurer La Suisse. This company also responded with a registered-share defence, again involving SBC. This had to be amended following hefty opposition from Swiss shareholders, but the foreign attackers were shut out.

Then, however, potential Swiss buyers came on the scene, one of them the Lugano financier Dr Tito Tettamanti. He battled it out with Swiss Life, finally being beaten by this company, despite a higher bid after La Suisse had consistently refused to register his shares.

Another French-Swiss company, La Genèvoise, went rather too far – at least, in the eyes of the stock exchange authorities – in wielding its share register as a shield. The Geneva life insurer not only refused to enter unwelcome shareholders into the stock ledger, but also declined to return the shares in question to either the purchaser or the seller. Last month it had to give up this stance when the ZUrich, Basle and Geneva bourses threatened immediate suspension and subsequent delisting.

The industry has also experienced a series of domestic realignments on an amicable basis. Apart from Swiss Life's acquisition of La Suisse, Swiss Re acquired control of former competitor Union Re, for example, by buying up the shareholding of Union Bank of Switzerland and Swiss National Insurance, while Winterthur bought Swiss Re's stake in Neuchatel and thus became majority shareholder.

Elsewhere, the twin companies Helvetia Fire and Helvetia-Unfall split up, the latter changing its name to Elvia.

There has simultaneously been a great deal of direct investment by Swiss insurance companies in other countries. The industry is particularly interested in the European Community members, business with whom already accounts for a substantial share of total foreign income.

There is also still uncertainty with regard to future Swiss-EC relations. Although further progress has been made on an agreement between Brussels and Berne, which foresees mutual freedom of activities for non-life companies, this has yet to be ratified; while corresponding negotiations have not even begun with regard to life assurance.

This has given extra point to Swiss companies' series of acquisitions within the EC. In the spring, Winterthur moved to buy up the Italian company Intercontinentale, whose subsidiaries include Padova Vita and Sapa Security and Property. Shortly afterwards, Baloise announced a major expansion of its Italian operations, acquiring control of De Angeli Frua and Norditalia, and the option to increase its stake in Tirrena: in 1987 the Basle company had already bought a majority shareholding in the Genoa-based firm Levante, having taken over control of Deutscher Ring, in Germany, and Mercator in Belgium in the two previous years.

For its part, Zurich took up a one-half stake in the Spanish company Unión Iberoamericana at the start of the year, and minority participations in the French company Astorg-Vie and Astorg-Accident.

Following the purchase of the British loss adjuster Thomas Howell Selfe and the acquisition of a majority stake in Lloyd Adriatico, of Trieste, Swiss Re last month bought a 49.9 per cent stake in the German bank Augsburger Aktienbank from the Quandt family – which, in its turn, will own a similar shareholding in the new *Swiss Re affiliated insurer* Schweiz Allgemeine Direkt-Versicherung.

In other parts of the world, Swiss Re has just acquired 45 per cent in the Canadian portfolio-management specialist Sobecoafter having, this spring, bought the Bermuda captives managerInternational Risk Management. A stake in another Hamilton company, Centre Reinsurance Holdings, was purchased by Zurich in January. The same firm has also bought up National and General Insurance in Australia, and expanded its far eastern presence in co-operation with the Manila-based Malayan Group, as well as agreeing to take over the Canadian operations of the *Travelers* Group in the US.

Also in North America, Winterthur recently acquired Southern Guaranty, of Montgomery, Alabama, and a Georgia subsidiary from Fireman's Fund.

The Swiss insurance industry, which is anything but short of money, can safely be expected to continue this dynamic growth in the next few years. It remains to be seen how successful foreign companies will be in establishing a base in Switzerland.

John Wicks

The Swiss franc's volatility reflects changes in the liquidity rules

The fundamentals are sound

THE SWISS Franc has been off colour this year. Its trade-weighted exchange value dropped some nine percentage points between December and September before firming somewhat.

The three-month Eurofranc interest rate has behaved more erratically than usual, dropping to below 2 per cent at the beginning of the year before bouncing back roughly to its 1987 level of just under 4 per cent, fitting in another small tumble in late September.

Despite this unusual volatility, there is no reason for foreigners who look to the franc as a strong and safe currency to be alarmed. The fundamentals – the inflation rate, economic growth, the payments balance – still look good.

Fluctuations this year stem primarily from the change introduced in the banks' liquidity requirements, which has led to a learning period both for the Swiss National Bank (SNB) and the banks.

Moreover, the franc no longer performs the role of prime and solitary currency haven that it had to endure for a time in the 1970s.

Nonetheless, events this year have focused attention on monetary policy, on the SNB's dilemma over the alteration to the liquidity rules, and on Swiss attitudes towards the European Monetary System, the International Monetary Fund and the World Bank.

SNB policy, in the words of Mr Georg Rich, its chief economist, aims at keeping prices stable with the least possible cost to the real economy. It is hinged primarily on holding inflation in check and supporting economic growth, but the SNB does not practise fine-tuning to smooth fluctuations in a business cycle.

The SNB cannot ignore exchange rates, because it cannot assume that movements on the currency markets reflect only changes in purchasing power parities or national inflation rates.

It recognises that Switzerland's export industries can be hurt by a too-high Swiss franc, while too low a rate for the franc would stimulate inflation. But any action on the exchange rate would be subordinated to the SNB's main objectives of price stability and economic growth.

To achieve these, the SNB relies on control of the monetary base, which consists of banknotes in circulation plus giro deposits with the Bank. It assumes that an annual rise of 2 to 3 per cent in the monetary base will ensure longer-term price stability.

Importance is attached to making the SNB's intentions clear, so the SNB announces towards the end of each year the money-supply target it has fixed for the next year. The target for the current year is 3 per cent. It will be undershot.

Trying to keep exchange or interest rates at given levels is considered to be inconsistent with a policy based on a money-stock target set with a price

Dr Markus Lusser: the Bank is against joining the EMS

objective in mind. However, the idea that the SNB executive board does not discuss possible future currency movements, when deciding on the annual monetary target, is highly implausible.

Swiss industrialists plan on the assumption that the exchange rate will stay within the SFr80-85 to DM100 range, but the SNB does not commit itself to keeping the franc within this band. It also emphasises that Swiss and German short-term interest rates can diverge, as indeed they have done this year.

The new bank liquidity requirements which came into effect in January aimed at doing away with the banks' problems in meeting the traditional end-of-month targets. The new rules, it was clear, would also reduce the level of the giro accounts the banks needed to maintain with the SNB – part of the base money aggregate – but nobody could be sure at which level these holdings would have to settle.

At the beginning of the year the difficulty was compounded by the SNB's perception that it would have to supply markets with more liquidity than usual in the aftermath of the October 1987 stock-market crash.

The Bank was also against following the West German Bundesbank policy of fixing a short-term interest rate and supplying the banks with whatever liquidity they would take at that rate. It feared an interest rate introduced as an operational target would be difficult to drop at a later stage.

It also considered that fixing an interest rate would, in itself, influence the banks' decisions about the levels of their own reserve holdings. A return to a fixed money base with variable interest rate might then generate a sudden surge in the banks' call for liquidity from the SNB.

In the event, the banks' demand for liquidity from the SNB fell more quickly than it had anticipated, leading to a decline in short-term rates until the summer and to high interest rate differentials with other European hard currencies such as the D-Mark and the guilder.

By November, the liquidity made available to the banks by the SNB had tumbled by some 50 per cent to just over SFr4bn. However, it was still impossible to be certain that the right level had been reached to enable the new inter-bank clearing system, also introduced this year, to work smoothly.

At the end of November the banks appeared to be anticipating a further tightening in SNB policy and higher interest rates. They were still waiting for the annual announcement of next year's money supply target. One bank calculated that the current level of interest rates would suffice to hold the inflation rate to 2.5 per cent next year. Interest rates were too low, if the SNB decided it needed to push inflation below 2 per cent.

In 1988, unexpectedly low oil prices have kept the annual rise in consumer prices to around 2 per cent. Swiss economists see no serious inflationary threat and end-of-year wage increases should be moderate.

However, on the price front, Switzerland is trailing West Germany and the Netherlands. There has been some talk of overheating in the economy, particularly in building. It is therefore not easy to forecast the SNB's reading of the situation for 1989.

As the Swiss debated vigorously how best to determine their country's relations with the European Community's single internal market in 1993, Dr Markus Lusser, the SNB president, made it clear that the Bank is against Switzerland's joining the European Monetary System (EMS).

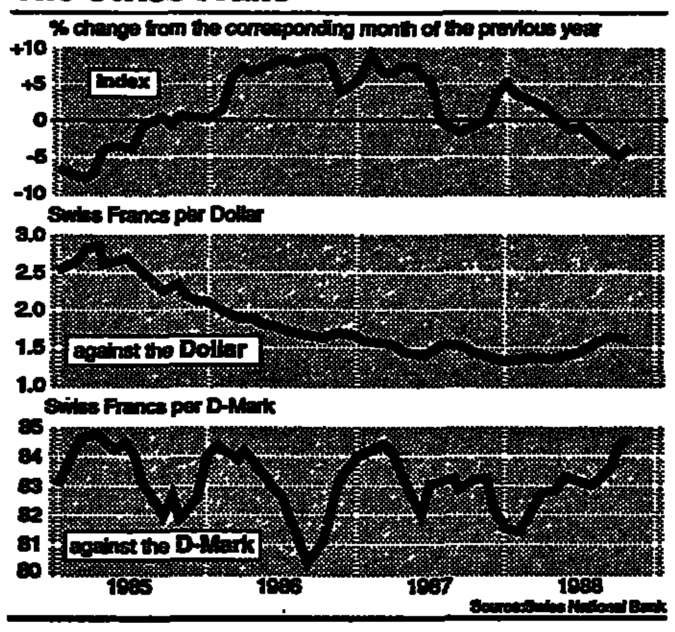
Fixed exchange rates between the franc and EC currencies would mean Swiss interest rates would be largely determined by the movement of West German rates. Switzerland could scarcely expect to influence the development of German interest rates and would lose its autonomy over monetary policy.

Debate has also revived over whether or not Switzerland should become a member of the International Monetary Fund and the World Bank. In principle, the SNB is in favour of closing what outsiders sometimes see as a glaring gap in the country's relations with the rest of the financial world.

In practice, however, the decision is a political one which would certainly have to be put to a national referendum. The Government fears, with good grounds, that the Swiss people would reject membership of the Bretton Woods organisations, just as in 1986 they refused to join the United Nations.

William Dullforce

The Swiss Franc



HUMAN RESOURCES

Desperately seeking bankers

THE SWISS banking sector has gone through a phase of rapid expansion over the past 10 years. Total assets rose from some SFr380bn in 1977 to over SFr850bn in 1987, quite apart from a much faster growth in off-balance-sheet business.

This has been accompanied, despite large-scale rationalisation, by a sharp increase in staff. Over the same period, the number of people employed by banks and finance companies went up from 74,352 to 118,960.

The rise was particularly marked in 1986 and 1987, with growth rates of 7.7 and 6.7 per cent, respectively. The increase has continued, though more slowly, since Black Monday, latest government reports pointing to third-quarter employment up 2.3 per cent on that for the corresponding period of last year – or by almost 16 per cent on the figure for autumn 1985.

The banks are, however, suffering more and more from the chronic shortage of manpower in Switzerland, where the overall unemployment rate stands at a six-year low of 0.6 per cent.

Banking is no exception to the general rule of a dried-out labour market, and there are far more situations vacant than people to fill them. This has not unnaturally led to massive poaching and an increase in employee turnover.

The staff fluctuation does seem to have fallen since last October's stock-market crash, but is still put at around 15 per cent. This has, just as naturally, resulted in occasional massive increases in pay for an already very well-paid profession.

On average, qualified male employees "in a responsible position" are earning a good SFr6,000 (£2,220) a month, and ancillary female staff over SFr3,000.

The Zurich Cantonal Bank said earlier this year that staff could often be kept only by the offer of a higher salary or promotion.

"The banks," according to Dr Egon Zehnder, head of the executive-search firm Egon Zehnder International, "will pay whatever is necessary to obtain the proper return on their investment. These salaries are, however, disproportionate when considered against those in other industries, and there is unlikely to be any immediate change in this."

It is generally not too difficult to find unskilled and semi-skilled labour, though Dr Zehnder claims that "many less-qualified people are paid far too much."

The real shortage in the sophisticated Swiss banking system is in specialists and good all-round bankers. Some banks are said to be unable to open a research department because of the lack of analysts. Data-processing staff are thin on the ground all over Switzerland, where the education system has been slow in introducing pupils and students to the computer.

An example of the overall scarcity of personnel is that of Swiss Volksbank which, with some 5,700 employees, recently said it could absorb "at least 500" well-qualified and experienced EDP and managerial staff.

A particular problem is that of recruiting foreigners, who would be welcome not just to fill the employment gap but also in the light of special expertise gained in financial centres abroad. At the end of last year, some 13,050 foreigners were employed in the "banking or credit" sector, or some 11 per cent of the whole.

It is extremely difficult to add to this total, due to Switzerland's highly restrictive immigration laws.

Although employment considerations alone do not seem to have resulted in any Swiss bank moving a particular activity out of the country, the dearth of both domestic and foreign manpower is certainly a contributory factor.

There will be no surge in the school-leaving population for some time to come, nor is there any chance of easing immigration policy. Even if future demand for bank personnel grows by only 2 to 3 per cent a year, the banks' only resort lies in beefing up their training programmes to raise in-house potential and teach the necessary new skills.

An important step has been taken in this direction with the

The banks are suffering more and more from the chronic shortage of manpower in Switzerland, where the overall unemployment rate stands at a six-year low of 0.6 per cent

establishment of the Swiss Banking School, whose first course began in September 1987. The institution was set up by the country's big three – Union Bank of Switzerland, Swiss Bank Corporation and Crédit Suisse – together with Bank Julius Baer and Bank Vontobel.

Initially, the courses were available only to employees of the five founders, but they are now open to all Swiss-based banks. They are held in the universities of Zurich and Geneva and the Graduate School of Economics and Business Administration, in St Gall.

Participants are persons "of management potential", aged between 30 and 40, with several years of banking experience and fluency in German, English and French. They are offered specialised courses in commercial, investment or trust banking, the stress being placed on international operations. Overall bank management also plays an important part in the programme.

The banking school is seen as complementing, not replacing individual training projects. These are accorded particular importance by the big five (the big three plus Volksbank and Bank Leu), who together account for half Switzerland's total banking workforce.

Last year, between 10 and 12 per cent of the total staff of UBS, SBC and Crédit Suisse were under training, while the majority of all employees took part in some form of organised in-house instruction.

This commitment is not limited to the largest banks: Julius Bear, for instance, is very proud of its in-house "university", while the cantonal banks have, since 1975, been co-operating in two organisations – one for German-speaking Switzerland, the other for the French and Italian-language areas – for middle-management training.

The most important basis for banking skills is the typically Swiss apprenticeship, a three-year course combining work invarious departments of a bank with instruction at a special commercial college. There are also external courses, such as that for the Federal Banking Diploma, available on a night-school basis.

The banks themselves offer special arrangements for grammar-school leavers and graduates, like UBS's two-year "all-round" programme, and for promotion-worth middle management such as the same bank's famous Wolfsburg Institution, centred on a chateau overlooking Lake Constance (SBC is next year to open a countryside training centre near Thun).

Foreign exposure is also considered an important part of training. Apart from language classes, not least in English, promising employees are often sent off to gain experience with subsidiaries and branches abroad.

Crédit Suisse has, in addition to this, been operating the CS International Bankers School, in New York, for the past four years, primarily for Swiss employees; while SBC and its New York operation run a six-month course there for graduates. UBS has training facilities in New York and London.

Even more will go into training programmes in future. As UBS's senior vice president, Mr Niklaus Kubli, says, regarding his bank's 15-year personnel-development efforts: "They have been our salvation"

John Wicks

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday December 19 1988

INSIDE

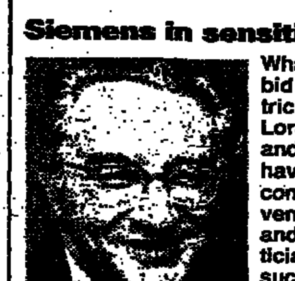
It's my party and I'll cry if I want to

First there was fundamental market analysis, then chartist analysis. Now, in the week before Christmas, the Eurobond column introduces party analysis, a seasonal guide to sentiment in the sector. The markedly sober gatherings of Eurobond dealers and syndicate managers in the City of London contrasts sharply with the much less inhibited celebrations seen in the long-gone days of the bull market. Page 17

Hard judgments on the software industry

Computer software projects are invariably late, over budget or both. Too many independent software houses still operate at the level of the jobbing builder, offering impossible timescales for completion and unrealistic estimates. Alan Cane argues in the Business Column that the problem could be eased by the emergence of large systems integrators, with prime contractor responsibilities. Page 32

Siemens in sensitive waters



What impact would the bid by the General Electric Company, led by Lord Weinstock (left), and Siemens for Plessey have on the current telecommunications joint venture between GEC and Plessey? Some politicians fear that if the bid succeeds a strategic industry will be lost to Britain. Hugo Dixon examines the pros and cons of Siemens becoming involved in a project which, as Britain's only indigenous manufacturer of telephone exchanges, is at the very heart of the takeover battle. Page 16

Drexel talks hit by split

A sharp split within Drexel Burnham Lambert, the Wall Street firm, is hampering efforts to negotiate a settlement with the US Government to avoid a lengthy and possibly debilitating trial on securities fraud and other charges. Roderick Oram reports. Page 20

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Deutsche Bank gives new life to Allfinanz

Haig Simonian examines the move by the leading German bank into the insurance business


Alfred Herrhausen: downplaying implications of the move

At a stroke last week, Mr Alfred Herrhausen, the chief executive of Deutsche Bank, West Germany's biggest bank, brought an end to what has probably been the longest period of rumour, speculation, analysis and outright lunacy ever seen in West German finance with the news that his bank is to set up its own life insurance business from next year.

On the surface, creating Deutsche Bank Lebensversicherung, its new insurance subsidiary, is just another step on the way to "Allfinanz" – the German catchword for one-stop financial services – which has been steadily gathering pace over the past two years.

But the fact that Germany's top bank, and one of the world's most respected financial institutions, has now decided to take the plunge has given the movement new impetus. Not only other domestic financial institutions, but banks all around the world, will be asking whether they should be going the same way.

A shift into insurance is part of the bank's strategy to develop a third service-based branch of its business beyond traditional commercial and investment banking. To that end, it has already bought a leading domestic management consultant, a big property broker and even plans to develop clubs for businessmen.

But insurance has triggered the most flak, given the vested interests involved. Despite persistent efforts by Mr Herrhausen and his colleagues to downplay the implications of the move since it was first mooted last April, there are heavy implications both for other German banks and the country's powerful insurance industry.

Why it decided to go ahead after eight months of careful study remains disarmingly simple. Germans are very keen savers.

Some have forecast a showdown between Deutsche Bank and companies like Allianz, Europe's biggest insurer, and Münchener Rückversicherung, the world's largest reinsurer, now it has made up its mind.

Together, Allianz and the Munich Re own Allianz Leben, Germany's biggest life assurer, while both also have holdings in Victoria Leben, another leading life assurer, as well as in a string of other groups.

So far, the insurers have reacted calmly. Both Mr Wolfgang Schieren, Allianz's canny chief executive, and Mr Horst Jannott, Munich Re's long-standing boss, have appeared relaxed in public. On separate occasions in recent months they have pointed out that there are already well over 100 insurers in Germany, and one more will not make a lot of difference.

But back in 1983, Mr Schieren reacted toughly to a much more modest step by the bank to introduce a life-linked savings plan. The bank should stick to its business, he implied.

Some think the insurers may now try to take the battle into Deutsche Bank's own camp. Allianz is not short of ammunition. It already has about 23 per cent of Bayerische Hypotheken- und Wechsel Bank, one of Germany's biggest and most profitable banks, alongside holdings in Berliner Handels- und Frankfurter Bank, a leading merchant bank, and a number of other smaller houses.

But talk of Allianz going into banking is probably far-fetched. Mr Schieren is a sure-footed businessman with a keen eye on the bottom line. He will not embark on an expensive banking adventure if there is no obvious return in sight.

"Allfinanz" has been gathering steam irrespective of Deutsche Bank. Moreover, it has been partly stoked by the insurers themselves.

Aachener und Münchener (A&M), Germany's fifth biggest insurance group, which is 20 per cent owned by Royal Insurance of the UK, has been among the pacemakers. Run by Mr Helmut Gies, the company last year bought a controlling interest in Bank für Gemeinwirtschaft, a sizeable nationwide bank. Last month, Mr Gies strengthened his hand by buying a 25 per cent stake and management control in Volkfürsorge, one of Germany's leading life insurers.

Thus a move towards greater co-operation between major insurers like Allianz and other banks is virtually certain.

But the insurers are also bound to indicate their displeasure in a way Deutsche Bank will notice. Transferring accounts away from the bank may pinch, but it is the loss of commission business that will really hurt. Allianz alone is a huge player in the capital markets. The bank's fund management business is also likely to suffer.

The insurers will also try to make life difficult for Deutsche Lebensversicherung on their own ground. Regulatory approval may be on the way, but the insurance lobby is certain to use all its muscle with federal supervisors to make waves for the newcomer.

Meanwhile, a further expansion of Allfinanz seems inevitable. Both Dresdner Bank and Commerzbank, Germany's second and third biggest banks respectively, plan to expand their services, though not by going into insurance independently.

Dresdner Bank is to develop its own Bausparkasse, a type of building finance operation. Bausparkassen are important because they have their own sales forces. Rather than being tied to bank counters and hours, their salesmen often visit customers at home. It is gradually dawning on all the commercial banks that external sales networks can in time be developed to sell a range of products, including traditional financial advice and loans.

Thus for some, Deutsche Bank's latest move was almost a foregone conclusion when it set up Deutsche Bauspar, its own Bausparkasse, almost two years ago.

Deutsche Bauspar, which has hitherto sold its products through its parent's own branches, is now developing its own external sales force. While home finance savings plans and life insurance will be its two key products, more traditional banking instruments could follow. For all its conservatism, Deutsche Bank recognised, rather more quickly than others, that the face of German finance is changing, and fast.

The challenge of forecasting the recent past

Anthony Harris in Washington

It is now a quarter of a century since Harold Macmillan remarked that one of the great problems of running an economy was forecasting the recent past. It is still a pressing problem for US governments, because the forecast budget deficit, which has to come out in line with the Gramm-Rudman law, hinges very much on the growth forecast.

It is even longer since the OECD in Paris set up a group of officials – Working Party 3 – to ensure that all the members knew what the others were doing, so that they could all *frame their own policies realistically.*

Have we learned anything important in the generation since then? The recent past remains an enigma in Washington. Until about three weeks ago it seemed clear to everyone that the Reagan boom was likely to retire with the President. Output had flattened, working hours were being cut back a bit, retailers reported weak sales and investment plans were being put on ice.

The National Association of Business Economists produced its November forecast: a much slower 1989, with a high risk of recession in the second half. The NABE is a bit of a stopped clock, since it produced much the same forecast in 1987; but the Federal Open Market Committee seemed pretty certain about the slowdown when it met six weeks ago. Indeed, the regional Feds produced further evidence of a slowdown when they reported in the Tan Book on their local experience for the FOMC meeting last week.

That was a snapshot taken as recently as November 18. Yet when the FOMC finally sat down last week, the statistics were saying "boom" again. Retail sales were revised up sharply when the statisticians discovered some heavy car sales they had missed the first time round. Housebuilding was recovering briskly, and the retailers were sounding more cheerful – they showed their confidence by bringing in an extra $2bn of imported manufactures in October. To top off the numbers, the purchasing managers, who fill the pulse-taking role which the CBI performs in Britain, produced their most optimistic assessment in five years.

It is too early to say what the FOMC made of all this. The Fed appears, as usual, to be feeling its way carefully. Any dramatic gesture, like the long-expected rise in the official discount rate, may well wait until the market has given up expecting it. The Greenspan style is to twitch an eyebrow and get an effect like a thunderclap.

It may not even happen, because the very latest report is that the Christmas sales boom, after a promising first week, is fizzling out after all. This seems to be confirmed every time you switch on a television set: the commercials are full of extra-special cut-price offers, just as they were at the same time last year; and last year sales really were weak.

My own guess is that the economy is not nearly as strong as most recent figures have suggested. The odd pattern of output – flat for three months, and then strongly up for the two which followed – looks like statistical noise. The recent rise in employment is nearly all in part-time jobs for women, which does not suggest that employers are bursting with confidence. High retail sales have been encouraged by clear-out sales of 1988 cars, and financed by big tax rebates; no staying power there.

If these guesses are right, then we are in for trouble. At the moment, there is something near complacency about the budget prospect. The Reagan budget, which will be the starting point for Mr Bush's negotiations, shows a reported $99bn deficit despite a 2 per cent rise in defence spending and no tax increases: but that hinges on a forecast of 3¼ per cent real growth. The consensus is for 2-2½ per cent, and the new administration may be forced to join the consensus.

What is causing worry here is the apparent standstill on the trade front. The monthly deficit now appears to be stuck at about $10bn, and from Harvard to Dupont Circle the devaluationists can be heard saying that they told us so. The only contradiction comes from economists at the Fed and elsewhere who argue that the problem is lack of capacity rather than lack of competitiveness.

This argument will certainly take up a good deal of time at the forthcoming Group of Seven meeting, but it is not clear that the finance ministers will be any better able to agree than the academics and other analysts. It is even less clear what they can usefully do even if they do agree.

Last week the IMF joined up with the Brookings Institution, the senior Washington think-tank, and the Centre for Economic Policy Research for a conference on international policy co-operation – how much good it does, how it should be approached, and what the pitfalls may be. The papers were about equal in bulk to a London telephone directory, complete with Yellow Pages; so if no agreed view can be found, it will not be for lack of trying.

Progress seems to be a bit glacial, all the same. So far as there was any agreement, it showed on the positive side that there ought to be measurable gains from co-operation, and probably rather bigger than had been thought before. It is important to prove this, because the whole process is a little like the Caucus Race in Alice in Wonderland: there must be prizes for all. The IMF has built an enormous new model of the world economy to prove that there are.

At the same time, the more elaborate ideas of what should be included in an international programme have gone out of fashion. The conference favoured a few broad, simple strategies – some exchange rate management to prevent speculative excesses, and broadly consistent growth and monetary objectives. However, some important economists reject even these undemanding ideas, and one British paper suggested that most of the gains from co-operation may be due simply to pooling information – which is where we came in a generation ago.

Certainly some big problems remain before we can make the word "interdependence" (which is too much of a mouthful, anyway) into a guide for action rather than an incantation for editorial writers.

Neither the academics not the government agree on how policies affect economies, and some of the leading governments seem to have only very limited control of their policies in any case. What is worse, recent history suggests that when a consensus does take hold for a little, it means simply that we all make the same mistake at the same time. It seems safest to leave the problem with the academics for now, and simply try to be honest with each other.

Economics Notebook

Refining the art of intervention

AMERICA'S major trading partners can hardly believe their luck. As a group, they seem to have got through 1988 without significantly adding to their official holdings of dollars.

Currency intervention, which in 1987 financed more than 60 per cent of that year's $154bn US current account deficit, has played only a minor role financing the $130bn deficit expected this year.

Moreover, the markets have treated central bank intervention with unusual respect.

There were plenty of factors that could have caused trouble. Neither US presidential candidate produced decisive ideas for tackling the nation's problems. The so-called adjustment process of bringing the US current account deficit and the Japanese and West German surpluses into better balance has slowed since summer. US economic luminaries like Professor Martin Feldstein and Mr Fred Bergsten have done their bit to stir unrest by claiming that the dollar should fall dramatically to close the US current account gap.

Yet apart from some notable speculative activity at the beginning of the year and just after the US presidential election, the central banks have been able to keep their powder dry. Some analysts believe total net intervention in dollars this year may be less than $20bn.

The relative calm in 1988 partly reflects the success that the central banks had at the beginning of the year in inflicting financial losses on banks that had aggressively oversold the dollar at the end of 1987. That "bear trap," sprung by three days of heavy central bank dollar purchases immediately after New Year, is thought to have cost the foreign exchange departments of some banks between one and two months' profits.

The central banks of the Group of Seven industrial nations have been obliged to intervene less this year because the February 1987 Louvre Accord to stabilise currencies has been interpreted flexibly over the past 12 months.

Instead of being obliged to buy or sell currencies at fixed margins of fluctuation, the central banks of the US, Japan, West Germany, Britain, France, Italy and Canada have been able to let currencies move beyond the unpublished Louvre ranges if they judge such moves to be temporary. This wait-and-see approach has minimised the cost of intervention and made it more effective because the central banks can wait to exploit technical rallies rather than intervene against market forces.

The G7 finance ministries and central banks have also been actively sharing information among themselves on how to combat speculation.

Economic trends have helped the central banks. The January bear trap influenced the market until the summer because it was validated by several monthly US trade reports which pointed to a rapid growth in US exports and a consequent decline in the US current account deficit.

The foreign exchange markets in turn learned to benefit from the new circumstances. Co-operative monetary policies which stifled exchange rate overshooting while permitting some currency flexibility gave the markets an opportunity to make money from short-term fluctuations and persuaded market operators that "taking on" the central banks was not worth the risks involved.

However, these factors may not provide the full explanation for this year's calm on the currency market. Mr Andrew Hodge, a vice president with Bank Brussels Lambert in New York, believes some G7 members have also adapted their domestic monetary and liquidity policies to influence exchange markets.

Such action is not unprecedented. In September 1987, the central banks operating the European Monetary System agreed that variations in interest rate differentials could play a much greater role in supporting currency intervention than before.

Their decision, known as the Basle-Nyborg agreement, helped ensure that the EMS parities stayed unchanged in the turbulent days following the 1987 stock market crash.

According to Mr Hodge, it is the Japanese who have developed currency manipulation through domestic policies to a fine art. In a recent study, he says that Japan accelerated its monetary growth in the middle and at the end of 1987 to support the dollar, offsetting the potentially inflationary effect

In day-to-day management, the Japanese authorities moved their money market interest rates, and especially the call rates, to fit their exchange rate aims.

Such hidden policy support could explain the success of the bear squeeze at the beginning of this year. "With this shift, the remaining intervention has become a signalling or disinformation device," Mr Hodge says.

Not surprisingly, central banks are unwilling to discuss such theories. They want to keep the mystique of currency intervention alive in case 1989 proves less easy to manage than 1988.

Peter Norman

THIS WEEK

THE SIZE of Britain's trade deficit will be the focus of attention for financial markets this week with figures for November released on Friday.

Figures released last month showed a £2.4bn current account deficit in October – much worse than expected – and were accompanied by a rise in base rates to 13 per cent.

Another bad number could intensify speculation about a further interest rate rise, leading to considerable volatility in currency and equity markets between Christmas and New Year.

The consensus of City analysts' forecasts, compiled by MMS International, the financial research company, is for a current account deficit of £1.5bn.

Also likely to attract much attention are money supply figures for November, released tomorrow. Analysts will be looking for signs of a slowdown in consumer credit as well as a general moderation in economic activity.

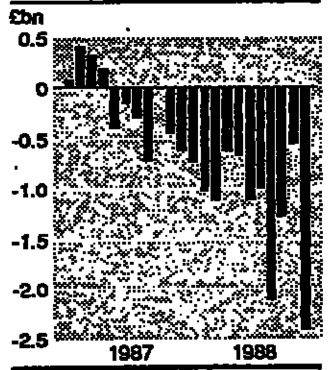
The consensus is for M0, the narrow measure of the money supply, to rise by 0.5 per cent. M4, the broad measure including building society deposits, is expected to increase 1.1 per cent with M4 lending at £6bn.

Detailed gross domestic product figures are published today by the Central Statistical Office and will give more clues about the strength of economic growth in the three months to September. A rise of 1.2 per cent is expected in the average measure compared with the previous three months.

On Wednesday, the House of Commons' Treasury and Civil Service Committee report on Mr Nigel Lawson's Autumn Statement is published. It will include a record of evidence by Treasury officials and the Chancellor.

US inflation features tomorrow with the publication

UK Current Account



of November's consumer price index. A rise of 0.4 per cent is expected, but a much bigger increase could intensify fears of a further tightening of monetary policy.

The strength of US economic growth will be illustrated in revised gross national product figures for the three months to September.

In West Germany, details of the latest securities repurchase agreements will be announced tomorrow by the Bundesbank. Last week Mr Karl-Otto Pöhl, the bank's president, hinted that the bank will set the rate at a fixed 5 per cent.

West German figures for M3, the broad money measure of the money supply, are published today. Currently the measure is growing outside its 3 to 6 per cent target range.

Tomorrow UK cyclical indicators for November. Manufacturers and distributors stocks in three months to September.

Wednesday US Federal budget for November. Two-year and four-year Treasury note announcement. UK construction, new orders in October.

Thursday US advance report on durable goods for November.

Friday US 10-day car sales.

UK COMPANY NEWS

Reassurances for the doubters

Hugo Dixon on a new talking point concerning the bid for Plessey

WITH THE joint GEC-Siemens bid for Plessey stuck in the courts, attention is now turning to the industrial logic of a merger.

At the centre of the discussion is GPT, the GEC and Plessey joint venture in telecommunications. It is Britain's only indigenous manufacturer of telecommunications exchanges – the so-called System X switches, which route calls around the country.

Will GPT benefit from a close association with the large West German electronics concern? Or will Siemens strip GPT of its high technology and use it as a shell for distributing its products in the UK?

Siemens says it will open its extensive worldwide distribution channels to GEC Plessey Telecommunications if its joint bid with GEC for Plessey is successful.

The West German electronics company also claims it wants genuine collaboration on research and development, and does not want to dominate GPT. These two promises were made by Mr Hans Baur, head of Siemens' telecommunications business, in an interview last week with the Financial Times.

The assurances appear to go a long way to defuse doubts within GPT about the industrial logic of a merger. GPT managers are understood to believe that a tie-up with Siemens has tremendous potential, but only provided it is done in the right way.

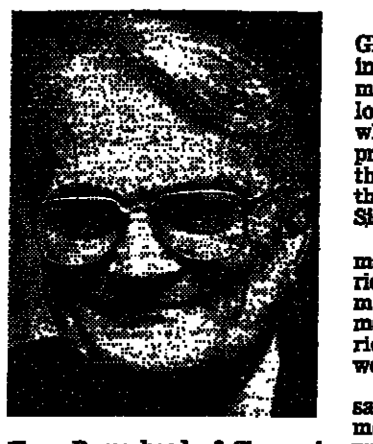
Some politicians and industrialists fear that, if the bid succeeds, a strategic and high-tech industry will be lost to Britain, with GPT being turned simply into a distribution channel for Siemens' products. But, with GPT managers warming to the prospects of a link-up, these arguments will be more difficult to sustain.

GPT, now a 50-50 joint venture between GEC and Plessey, will be divided 40 per cent to Siemens and 60 per cent to GEC if the bid goes ahead. The company is in the difficult position, where its parents are fighting over its future, and said it would therefore be unable to comment on the merits of the bid.

However, industry executives say GPT's managers see the advantages of collaborating on R&D with Siemens, whose telecommunications business is three times its size. GPT is concerned that it does not have sufficient financial resources to fund R&D for the next generation of telecommunications products.

Nevertheless, there are doubts that Siemens would seek to dominate R&D from its headquarters in Munich. Mr Baur tried to allay these fears, by saying that the companies would work together to develop future products. One company would not dominate the other.

A further aspect of a merger about which GPT managers are said to be enthusiastic is that it would give them access to Siemens' extensive distribution channels. This would overcome the company's major weakness of having only a minimal presence overseas.



Hans Baur: head of Siemens' telecommunications business

The managers believe that GPT, which has had to operate in the UK's liberalised telecommunications markets, has lower costs than Siemens, whose home market is more protected. They therefore think they would be able to more than hold their own against Siemens.

For similar reasons, the managers are also not too worried about rationalisations in manufacturing following a merger. They feel GPT's factories are more efficient and would therefore be retained.

The managers, however, are said to be concerned that Siemens would favour its own products and factories after a merger and rationalise only GPT's.

Mr Baur was anxious to remove these doubts. Siemens would immediately open its sales offices to GPT products following a merger, though he refused specify what would happen if the company's products competed directly with Siemens' own products.

Mr Baur also said there were opportunities for rationalisation in manufacturing specialised equipment, but that each major country needed to maintain a mainstream telecommunications manufacturing capacity.

Brent Walker denies probe into casinos

By Clare Pearson

BRENT WALKER, property and leisure group, yesterday issued a swift and heated denial of a press suggestion its casinos were under investigation from the Gaming Board, the regulatory body for the gambling industry with power to issue and revoke licenses.

Responding to an article in yesterday's Observer, Brent Walker said: "There is no suggestion that any of our licenses are remotely at risk.

No allegations of any nature have been made by the Gaming Board against (the company) or its executives and there has been no action by the Board against the company or its executive."

The story attempted to "portray a 'drama' involving our casinos and the Gaming Board (which was) categorically and unequivocally misleading and untrue," it said.

The furore comes at a sensitive time for Brent Walker, with concerns growing about the logic as well as the pace of its expansion under its flamboyant chairman, Mr George Walker.

The terms of its recent £180m acquisition of Lonrho's wine and spirits businesses have come in for particular criticism.

The company was also anxious yesterday to stress that it had not put a "for sale" notice on its casinos in the light of its recent increase in borrowings.

"Of course, we would consider any offer on its merits, but in that sense we view the casinos as we would any other part of the group," Mr John Brackenbury, group managing director, said.

Textron emerges as the 'white knight' behind bid for Avdel

By Nikki Tait

TEXTRON, the large US conglomerate, will announce today that it is the mystery "white knight" prepared to bid for Avdel, the UK fasteners group.

The US company is also expected to confirm that its offer to bid 92p a share for Avdel would remain on the table provided rival bidder Banner Industries accepted.

However, both Textron and its advisers, Schroder Wagg, declined to comment on whether the precondition might be waived at some point. "It would be premature," Textron said from the US.

Yesterday, Banner's only comment was that Textron's identity as the white knight made no difference to its stance. It claims synergy between Avdel and its own fasteners business and says that it has no intention of selling its shares. Banner wrote to Avdel shareholders informing them of this position at the weekend.

Banner, which raised its own offer to 88p a share a week ago, already owns 43.2 per cent of Avdel's voting rights. Its offer is final and cannot be increased in any circumstances.

On the Avdel side, however, a dozen institutions speaking for 34.8 per cent of Avdel's voting capital have already said that they would accept the white knight offer.

Textron and Avdel are already known to each other and according to Mr John Marley, Avdel's chief executive, there is some technology transfer between the two. Like Avdel, Textron's fasteners business encompasses both the fasteners and systems for applying them.

Yesterday Mr Marley claimed that "given we have to bite the bullet of losing our independence" he saw merit in a link with Textron. Geographically, Avdel can offer more strength in Europe and the Far East while Textron has a larger position in the US fasteners market.

Iceland and Bejam bid battle reaches Christmas climax

By Philip Coggan

THE BID battle between frozen food retailers Bejam and Iceland Frozen Foods, which is set to close this week, had descended to traditional Christmas panto language by last Friday.

The two sides sent out "Oh, yes, you did" – "Oh, no, we didn't" missives over whether Mr John Apthorp, Bejam's founder, was a "known seller" of his shares in the company.

However, there are serious issues involved in the £238m takeover contest. Can the brash Northern style of Mr Malcolm Walker, Iceland's chairman, put the Southern-based Bejam back on the growth track?

Iceland can point to its growth record over the past four years since it joined the Unlisted Securities Market. Pre-tax profits have risen from £2.8m in 1984 to a forecast £8.8m this year.

Bejam's profits have also grown over the past four years, but more slowly, from £15.7m to £24.3m. And Iceland has made much of the fact that, following disappointing interim results, Bejam has not made a profits forecast for this year.

Bejam, however, points to the fact that its profits and sales per square foot are far higher than Iceland's.

That, says Iceland, is because Bejam is based in the more prosperous south; Bejam responds by saying that Iceland's faster growth is because northern frozen foods sales are "catching up" with the rest of the country.

The arguments are complicated because Iceland has recently been opening stores in the south of England and Bejam has outlets outside its southern base.

According to Iceland, Bejam shareholders have nothing to lose by accepting the bid. The Bejam share price has been virtually static for the last four years.

Iceland will apply its "formula" to Bejam stores, changing the name and introducing more value-added and own-label products. However, Bejam says it is foolish to throw away its brand name which is firmly associated in the public mind with frozen food retailing.

Instead, says Bejam, shareholders should trust a relatively new management team, led by Mr Tim How, to grow the group. Two new formats, one upmarket, one downmarket, are being introduced. Bejam says the strategy is designed to appeal to the widest range of customers but Iceland dismisses the dual format idea as incoherent.

Judged on recent profits records alone, Iceland would seem to have the upper hand. However, two factors strongly favour Bejam's defence.

First, the founding Apthorp family, with 30 per cent of the equity, has made it clear it will not accept the bid. Second, Iceland decided not to increase its initial all-share offer but simply to add a partial cash alternative.

It seemed for a while that Bejam would be saved. Its share price lagged far behind both the 188p share offer and the 182p partial cash offer last week. That is normally a sign that the market thinks the offer will fail.

On Friday, however, Bejam's share price surged 12p to 165p, perhaps because Iceland said it would not extend the partial cash offer beyond Wednesday.

The all-share offer could be extended for a further eight days but in practice the onset of Christmas may make such an extension pointless.

In the end, the battle may boil down to whether institutions still believe, in the wake of the problems of Next and Harris Queensway, that there is still mileage in store revamps in the retailing sector.

Returns bolster London Shop in Peel bid

By Paul Cheeseright, Property Correspondent

LONDON Shop properties have provided comfortably higher total returns than properties held in the average institutional portfolio, Mr John Bushell, the chairman, told shareholders during the weekend.

In a letter containing a report, commissioned from the Investment Property Databank, on the performance of its portfolio, London Shop is attempting to build up resistance among its shareholders to the hostile 315p a share bid from Peel Holdings.

The report from the IPD was commissioned when Peel made its bid, now valuing in its revised form London Shop at £282m. The IPD is an independent research unit which monitors the values of £20bn worth of institutional property.

But publication of its report follows an order to Peel by the Takeover Panel to withdraw criticisms of London Shop's performance based on rental and capital value surveys published by Hillier Parker, chartered surveyors.

And the report follows the despatch at the end of last week to London Shop shareholders of the formal document setting out Peel's revised offer. This notes that London Shop's share price has risen while the FT-Actuaries Share Index fell 7 per cent between the time Peel made its original offer on November 24 and December 13.

London Shop's share price rose from 266p on November 8 to 318p on December 13. "What would the London Shop ordinary share price be if our increased offers were to lapse?" the Peel offer document asked.

Mr Bushell is using the IPD report in an effort to counter Peel charges that it is not managing its portfolio to maximum effect. His letter to shareholders precedes the publication of a new net asset value for the company based on a revaluation its property assets.

The central point of the IPD report is that in the four years from 1984 to 1987, the London Shop portfolio provided a total return at an annualised rate of 18.9 per cent, while the performance of all properties in the IPD data base, weighted to reflect the composition of London Shop's portfolio, was 4.4 percentage points less at 14.5 per cent.

Capital growth of the London Shop portfolio came out at an annualised rate of 11.2 per cent, that of the IPD portfolio at 8.7 per cent. Income return was 7.7 per cent at an annualised rate for the London Shop portfolio and 5.8 per cent for the IPD portfolio.

London Shop's property holdings are split between retail at 81 per cent, offices at 16 per cent and industrial at 3 per cent.

Wellman surges to over £1.2m

With all the group's businesses performing broadly in line with expectations, Wellman, engineering group, achieved a jump in pre-tax profits from £707,000 to £1.26m for the six months ended September 30.

Turnover grew to £20.54m (£18.93m) and the pre-tax result was struck after interest received of £11,000 against a £177,000 charge.

Tax took £332,000 (£253,000), and after minorities of £4,000 (£3,000) earnings worked through at 3.62p (1.95p) per share. No dividend is being paid until the arrears of preference dividend have been extinguished, the chairman said.

Chillington raises £8.5m

Chillington Corporation, formerly Plantation and General Investments, has announced an £8.5m rights issue and placing.

The cash raised will be used to cut borrowings and build up operations. These span tools, DIY products, outboard motors, and tea and coffee estates in eight countries.

The rights issue on a one for ten basis involves 2.7m new shares and warrants at 130p per unit which is equivalent to an effective market price of 115p per share. The placing of 4m new shares at 130p per share is combined with an open offer to shareholders.

Thomson may halt bid

By Clare Pearson

THOMSON T-Line is expected this week to abandon plans to buy fellow industrial holding company Suter, following a £165m hostile bid from Ladbroke Group, hotels, property, betting and retail concern.

Ladbroke, which dispatched its offer document over the weekend, has made its bid conditional on Thomson shareholders rejecting the Suter acquisition, which has already proved unpopular, at an extraordinary general meeting on Wednesday.

In its document, Ladbroke argues that Thomson will not be able to provide the cash resources for the successful fostering of its principal asset, Vernons

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Acatos & Hutcheson, Bimec Industries, Broadwell Land, Explaura, F & C Smaller Co's, Lovell (G.F.), Randfontein Ests. Gold Mining, TR Trustees, Tamaris, Tops Estates, Victoria Carpet, Waterglade Int'l.

Finals- Craton Lodge & Knight.

FUTURE DATES

Interims-

Beepack	Jan. 11
Carlco Engineering	Jan. 9
Randfontein Ests. Gold	Dec. 19
Victoria Carpets	Dec. 19
Wyko	Jan. 10

Finals-

Claremont (UK)	Dec. 20

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Bank of Scotland 9¼pc Irrd. Pref. (Section: Banks).

NZI (Insurance).

Ralston Inv. Tst. (Trusts, Finance, Land).

Rockwood Hldgs. 8½pc Conv. Pref. (Electricals).

SMAC (Motors, Garages & Distributors).

FINANCIAL TIMES STOCK INDICES

	Dec. 16	Dec. 15	Dec. 14	Dec. 13	Dec. 12	Dec. 9	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.85	86.54	86.18	86.65	86.79	86.77	91.43	86.18	127.4	49.18
Fixed interest	96.15	95.99	96.14	95.81	96.65	96.67	98.67	94.14	105.4	50.53
Ordinary	1436.0	1427.3	1424.2	1425.7	1422.4	1429.4	1514.7	1349.0	1926.2	49.4
Gold mines	163.1	170.7	170.2	173.2	174.6	176.8	312.5	162.7	734.7	43.5
FT-Act All Share	913.81	908.38	904.47	904.36	901.93	903.72	978.58	870.19	1238.57	61.92
FT-SE 100	1773.7	1763.2	1756.1	1752.6	1747.9	1750.3	1879.3	1694.5	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Soviet facility wins fine terms

FEARS THAT the Soviet Union may have overextended itself in its search for Western export credits to finance its internal restructuring should be put to rest by the terms announced in its latest financing, this time from a group of Italian banks.

If anything, terms of the export financing, to be provided to the USSR by state-owned Mediocredito Centrale and a group of eight other Italian state-owned financial institutions, demonstrate that the Soviet Union is perceived as among the world's most credit worthy borrowers, scoring terms that rival those charged to some state-owned entities within Europe.

And even arrangers for the credit to the lending group, Banco di Roma, concede that the terms are fine, considering the maturity.

Mediocredito Centrale is seeking a $124.66m loan due June 1999 which carries a margin of 20 basis points over London interbank offered rates (Libor). There is a 10 basis point participation fee. The monies are separate from the Italian Ecu680m export finance credit announced this autumn.

Funds will be used for construction of a factory that will build refrigerators in the Soviet Union. The factory will be constructed by Face, the Italian engineering firm.

There is a group of 12 Italian and international banks lending funds to the Italian banking group, thus avoiding a 25 basis point tax on domestic Italian borrowings of longer than 18 months. Each lender is providing about $10.4m.

Meanwhile, the Italian trade financing should reassure some EC members that the Soviet Union does not, in fact, need subsidised finance in order to be persuaded to buy consumer goods from the West. Some countries had earlier been in the habit of offering sub-market rates on their loans — compensated for by higher fees, up front. But concern about a free-for-all of subsidised lending prompted the OECD to rule out sub-consensus rates loans to the Soviet Union. That rate is now between 8 and 9 per cent.

The Government of Cyprus has not fared as well in its financing. Cyprus Development Bank has asked Sumitomo Bank to arrange for it a $30m seven-year bullet loan carrying a margin of 37½ basis points over Libor. Fees were not disclosed.

Meanwhile, the £70m management buy-out of Ryan International, the coal-mining and coal recovery group, is being financed by a syndicated loan now being arranged by Bankers Trust International and Creditanstalt Bankverein.

The advent of year-end has caused new loan syndications to dwindle to a trickle. New business is suffering from the number of credit officers on holiday — and hence unable to make lending decisions.

However, many banks have already met lending targets for 1988 and are closing their books for the year, a sign that, if anything, business has surpassed expectations.

Still, the volume of business has not been enough to force margins up, at least for certain kinds of borrowers. Samuel Montagu, arranger of a £121m committed facility for the recently privatised British Airports Authority, said it had just increased the facility to £200m and expanded the number of banks by three.

The loan carries a razor-thin six basis point facility fee and a maximum margin of 10 basis points over Libor. Montagu said that BAA currently has few operations that allow banks to establish relationships with it, and, in light of its expansion plans overseas, the finely-priced facility still looks like a good bet for lenders wanting to begin offering other services.

Separately, a raft of commercial paper programmes has emerged in the Euromarkets, several linked to multiple option facilities announced earlier this year. It includes a $250 Eurocommercial paper programme for Cable and Wireless arranged by Barclays de Zoete Wedd and a £200m programme with a dollar option for S&W Berisford, also arranged by BZW.

Norma Cohen

INTERNATIONAL BONDS

Sober mood permeates City round of festive parties

FEW PUNDITS would argue that the Eurobond market is known as one of the most vigorously social sectors of the City. In previous years, when activity wound down as is inevitable at this time of year, idle dealers and syndicate managers were usually able to seek solace from trading room tedium in a wild social whirl of parties hosted by their counterparts at other houses.

This year, however, the merrymaking has been muted. Japanese houses have kept seasonal celebrations to a minimum in reverence to the Emperor whose health continues to give rise for concern. Yet many houses not issuing their usual invitations do not really have a similar sound excuse and the mood at many gatherings this year has been markedly sober. This is in sharp contrast to some of the excesses seen during the bull market of the early 1980s, when the lucrative revenues generated by working hard went some way to defraying the expenses of playing hard.

Japanese houses have been unable, for reasons of protocol, to hold the lavish receptions the rest of the market has come to expect from them. While no public invitations have been issued, most have still been able to hold smaller, internal events. At one stroke, this has cut the number of City free-for-alls by at least a third and has been a great source of disappointment to the large number of gai-jin staff and clients of these houses.

These singular circumstances have also provided a few of them with an ideal excuse for saving the several thousand pounds that a reception at a West End hotel with abundant sushi and sashimi might cost. While no one would suggest that houses in the league of Nomura International might find it difficult to fund this kind of public relations exercise, it is reportedly saving substantial face at more than one of the other better known Japanese firms.

Western houses unconstrained by matters of imperial respect have been trying to fill the gap caused by the absence of their oriental partners and many have managed to do so with some flair. In the words of one veteran market observer: "Hangover cures are still well bid." A handful of houses have even capitalised on the scarcity of parties, to make some sort of statement about their own particular fortunes in 1988.

If sector success can be measured by the size of invitation cards, one must assume that it has been a splendid year for Banque Paribas Capital Markets, which also managed to be first in with its syndicate do. Goldman Sachs was the host at another popular meeting, the scale of which prompted speculation that the US house was set to make something of a market comeback.

The syndicate team at UBS Securities has decided to throw its first very own thrash to celebrate its dominance in Canadian dollars — *unanimously voted market flavour of the year — with what promises to* be a rather upmarket party tonight. Merrill Lynch's choice of Friday for its event was roundly applauded and was the final factor in bringing the primary market to a complete standstill last week.

The dearth of external invitations this year from one of the larger and most traditionally macho houses in the market surprised many of its would-be competitors as there is little doubt that if any single house in the market can afford to entertain, it is the aforementioned. Officials there could not comment, although observers noted that the house in question recently had to foot fairly hefty office removal bills. Others suggested that seasonal good cheer might have been somewhat dampened by worries over what the firm will actually look like when radical internal restructuring is completed.

The recent spate of City sackings and rumours of imminent redundancies which continue to circulate have clearly had a somewhat depressing effect on the general jollification. While vintners in the Square Mile felt it was too early to say whether consumption of festive libations was down on last year, the former Junior Health Minister's recent visit in connection with the new City Drinksense campaign could well be expected to have some sort of effect on drinking habits.

Despite the gloom and doom of the jobs outlook, one campaign which took off successfully last week goes under the banner of "The City cares." It was reassuring to see that so many market participants managed to find a thought for those less fortunate than themselves and dig into the pockets of their immaculately tailored suits for good causes. An all-day event called Booze Aid raised several hundred pounds for Children in Need. The "Alternative Christmas Party" last week also saw a number of Eurobond market veterans gather in a good cause. Dennis Thomas of UBS organised the evening at which Stanley Ross was a popular speaker. More than £6,000 was raised by auctioning off various donated *items, including Eric Clapton* concert tickets and El Vino vouchers. At least £12,000 was raised for the leukaemia unit at Great Ormond Street Hospital.

Dominique Jackson

EUROMARKET TURNOVER ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	2,474.3	1.2	401.3	9,340.1
Prev	382.7	0.0	2,929.1	7,068.8
Other	4,134.0	2.4	1,416.4	3,416.1
Prev	1,624.3	0.0	29.6	1,076.3
Secondary Market				
US$	12,415.4	1,263.6	7,250.5	6,364.6
Prev	10,253.1	1,010.6	5,826.0	5,708.3
Other	18,713.9	986.4	3,106.0	22,758.3
Prev	18,656.1	1,125.0	5,636.2	22,455.6

	Cedel	Euroclear	Total
US$	12,493.2	27,017.8	39,511.0
Prev	9,539.7	23,638.9	33,178.6
Other	24,535.5	29,998.0	54,533.5
Prev	22,684.2	27,918.9	50,603.1

Week to December 15, 1988

Source: AIBD

Malaysia names dealers for government securities

BANK NEGARA, Malaysia's central bank, has announced extensive financial reforms including changes to the government and private debt securities market and bank reserve and liquidity requirements, Reuter reports from Kuala Lumpur.

The reforms, which take effect on January 1, will improve competition, provide depth to the money market and further develop the capital market, especially in Malaysian government securities, Bank Negara said.

It named 18 principal dealers who will handle government securities, which will be sold by auction instead of through advance subscriptions, as is the current practice.

The 18 dealers include four commercial banks, seven merchant banks and seven discount houses which will underwrite the primary issues of Malaysian government securities.

"These institutions will be obliged to provide two-way quotations for government securities to all institutions and individuals wishing to purchase or sell government securities," the central bank said.

It added that the dealers list was subject to change.

Bank Negara said that only the seven discount houses will be able to participate in weekly Treasury bill tenders and will underwrite all issues.

The discount houses will be allowed to hold and trade money market instruments, including government securities, Treasury bills and bankers acceptances with up to five years remaining to maturity. The current limit is three years.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nippon St'less Steel‡◆	100	1992	4	4½	100	Yamaichi Int. (Eur)	4.500
Life Co.‡◆	80	1992	4	5⅛	100	Nikko Secs (Europe)	5.125
Tokyo Steel‡◆	120	1992	4	4⅜	100	Nomura Int.	4.375
Daishinpan Co.‡◆	100	1992	4	4¾	100	New Japan Secs.	4.750
Flash Ltd.-Series D‡◆	30	1993	4⅔	(d)	100.1	Sanwa Int.	-
Venezuela(e)‡◆	166	1994	6	1⅛	100	Chase Inv. Bank	-
Venezuela(e)‡◆	167	1998	10	1⅛	100	Chase Inv. Bank	-
Venezuela(e)‡◆	167	2003	15	1⅛	100	Chase Inv. Bank	-
CANADIAN DOLLARS							
Toronto-Dom.(Gr.C'man)◆	100	1992	3¼	11	101½	UBS (Secs)	10.394
Banque Paribas Lux.◆	75	1991	2½	11¼	101.45	Banque Paribas	10.494
Interfin. Cr.National◆	100	1991	2	11½	101.4	J.P. Morgan Secs.	10.686
D-MARKS							
Dresdner Finance◆	1bn	1994	5	5½	100	Dresdner Bank	5.500
Union Bk of Finland◆	200	1994	5	5½	101	Deutsche Bank	5.267
Amro Bank (a)‡◆	250	1999	10	1/16	100	Trinkaus & Burkhardt	-
ECSC◆	100	1994	6	5½	100⅜	WestLB	5.425
Hamburg LB Int.(H.Kong)◆	100	1993	5	5½	100¾	Hamburgische Landesbk	5.325
SWISS FRANCS							
South Africa☆☆◆	55	1991	-	7	100	(g)	7.000
STERLING							
Lucas Industries◆	100	2020	31½	10⅞	98.907	J.H. Schroder Wagg	11.000
Assoc.British Ports◆	75	2015	27	10⅞	97.879	Kleinwort Benson	11.126
ECUs							
SCA Cap. Corp.§◆	101	2004	16	4¼	100	Svenska Int.	4.250
FINNISH MARKKA							
World Bank◆	300	1994	5	9¾	101	Kansallis Banking	9.489
LUXEMBOURG FRANCS							
San Paolo Lariano Bk◆	500	1994	5	7¼	100¼	Banque Paribas (Lux)	7.189
YEN							
BNP(b)◆	20bn	1995	7	6	101⅞	Bankers Trust Int.	5.668
Union Bk Finland(c)‡◆	8bn	1994	5	-55bp	100¼	LTCB Int.	-
Lavoro Bank Overseas◆	5bn	1993	4¼	0	84.16	Mitsui Trust Int.	4.141
Den Danske Bank‡◆	4bn	1994	5	(f)	100.10	LTCB Int.	-

☆Not yet priced. ☆☆Private placement. ‡With equity warrants. §Convertible. ◆Final terms. a) From Jan.1990-Jan.1994 convertible into fixed rate 10-year bond with 6⅛% coupon. Pays 1/16 over Libor. b) Dual-currency - redemption linked to US$. c) 55bp under Japanese long-term prime rate. d) 18bp over 6m Libor. Secured by $36.33m guaranteed ex-warrant bonds. e) 1⅛ over 6m Libor. f) Linked to 5-yr yen swap rate. g) Arranged through group of banks. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Policy rift at Fed disturbs Wall St

THE FEDERAL Reserve Board tightened US monetary policy a notch last week, in light of a strong economy and rising interest rates abroad. However, what seems to be going on behind the scenes at the central bank is making some on *Wall Street a little apprehensive.*

A split is growing between a majority of the Fed's governors and presidents of some of the reserve banks.

The former are fairly relaxed, believing the current growth rate poses little inflationary threat. The latter argue it does, and are lobbying far more hawkishly for an even tighter monetary policy.

Judging by his past comments, Mr Alan Greenspan, the Fed chairman, is in the latter camp. If so, he failed last week to round up support for a discount rate increase, a policy move the governors decide with advice from the presidents. The two camps met in last week's session of the Federal Open Market Committee (FOMC).

The markets waited all week for a discount rate increase, but made do in the end with a small central bank boost to Fed funds, the rate at which banks lend reserves to each other.

Interest rates had risen in anticipation of some form of tightening. It was the second increase in Fed funds in two weeks – a continuation of the Fed's approach since early spring of introducing frequent but modest rises to rein the economy in gently.

The Fed's apparent target range for the funds is 8¾ to 8⅞ per cent, up ¼ of a point on the week.

Salomon Brothers believes: "Convenient seasonal pressure on the funds rate, a division among FOMC members and the clarity of the Fed's intent in its latest move rule out a hike in the discount rate for now. *None the less, maintaining the funds rate near its current level may require a higher discount rate when seasonal money market pressures abate in January.*"

The target level is high relative to the current discount rate of 6½ per cent.

The Fed could rationalise such a move as a catch up, just as it did with August's increase after a long steady rise in Fed funds.

Alternatively, it could boost the discount rate as a demonstration of concern about strong economic growth, inflationary pressure, intractable budget deficits and the dollar. The longer it refrains from such a signal, the more investors will grow doubtful about the Fed's commitment to fighting inflation.

Mr Greenspan is probably trying to build a consensus for an increase. Ironically, however, the delay could actually serve a useful purpose as it keeps on hand the tool of higher interest rates should the dollar need support in the new year.

The US currency firmed towards the end of last week as foreign exchange markets expected some form of tightening to match higher interest rates initiated by European central banks. The Europeans were showing a greater sensitivity than the Fed to the potential of higher inflation because of brisk economic growth.

It remains to be seen this week if markets judge costlier Fed funds an adequate substitute to a discount rate increase. Fortunately, the dollar is deriving some support from corporate buying for genuine year-end financial purposes.

The dollar will face a difficult test, though, in late January, shortly after Mr George Bush's presidential inauguration.

When world financial markets wobbled after his election victory, he promised swift action with Congress to cut the US budget deficit. Watching the great difficulty both parties will have achieving that is liable to unsettle markets again.

Foreign investors' faith in the Fed will be particularly important then. But Mr David Jones, chief economist of Aubrey G. Lanston, a New York primary bond dealer, believes recent developments within the Fed's ranks could have a negative effect on investors' perceptions.

"There is the potential for a deepening split and greater lack of consensus in the Fed," he feels. This would result in the central bank reacting belatedly and more cautiously to economic developments.

The Fed was "ahead of the inflation curve" in the spring and summer, with a monetary policy slightly tighter than justified by price pressures.

Now it was running the risk of letting inflation get ahead because policy was not tight enough. If too big a gap developed, the central bank would have to catch up with sharply higher interest rates, which would give the economy a nasty jolt.

Data released last week *showed that the economy was* picking up steam.

Considering the tenor of the news, the markets took them well. This was probably because it believed the tightening it was expecting showed the Fed was reacting to the strong growth.

Retail sales in November rose a robust 1.1 per cent, while October's growth was revised up to 1.6 per cent. Industrial production was somewhat larger than expected and the nation's capacity utilisation rate increased again to its highest level in nine years. Housing starts were far more numerous than forecast, despite rising interest rates.

The trade deficit of $10.35bn and the 0.3 per cent rise in the producer price index were taken as encouraging numbers by many. But contrary views were expressed. "Trade progress has ground to a halt. How *can that be good news?" asked* Mr Robert Brusca, chief New York economist of Nikko Securities, after exports fell.

The producer price index, like the consumer price index due out tomorrow, is still turning out small increases. But its growth rate is running about a point ahead of last year's, and will accelerate further as rising *prices of oil and other commodities* feed through.

Against this background of brisk economic activity, there *is a lot of talk on Wall Street of* the significance of the inverted *yield* curve, whereby one-year Treasury bills are paying investors higher interest rates than 30-year bonds.

Although the long bond yields are being artificially depressed by the high demand for the securities to strip into zero-coupon bonds, the shape of the curve is still a credible sign of a recession ahead.

The last inversion was in 1982. Not all analysts have foreshadowed a recession, but perhaps the accommodating Fed governors are banking on one to help them kill inflation without the need for sharply increasing interest rates.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.87	8.50	8.32	8.87	6.27
Three-month Treasury bills	8.45	7.93	7.92	8.45	6.21
Six-month Treasury bills	8.67	8.18	7.93	8.67	5.73
Three-month prime CDs	9.35	9.20	8.85	9.35	6.77
30-day Commercial Paper	9.45	9.10	8.36	9.45	6.57
90-day Commercial Paper	9.18	9.00	8.51	9.18	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	97⅞	-1⅛	9.19	9.12	8.97
20-year Treasury	102⅛	-1⅛	9.12	9.00	9.13
30-year Treasury	99½	-1	9.05	8.96	9.14

Source: Salomon Bros (estimates).

Money supply: In the week ended December 5, M1 fell by $1.1bn to $786.4bn

NRI TOKYO BOND INDEX

December 1983 = 100	15/12/88	Average yield† (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	148.40	4.47	148.38	143.82	144.06
Government Bonds	149.75	4.12	149.82	144.21	144.40
Municipal Bonds	149.98	4.84	149.81	145.39	145.98
Govt.-guaranteed Bonds	150.92	4.89	150.75	146.83	147.47
Bank Debentures	141.39	4.36	141.39	137.87	138.25
Corporate Bonds	147.41	5.41	147.25	144.46	144.16
Yen-denom. Foreign Bonds	150.49	6.25	150.30	148.21	145.19
Government 10-year†	4.78		4.75	5.22	5.03

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Hint of slowdown lifts confidence

EVIDENCE that the *long-awaited slowdown in* domestic activity may be nigh propelled a choppy gilts market higher, although it remains vulnerable to this week's trade figures for November.

Indications that growth in domestic demand may be cooling were provided by retail sales and weekly banking figures, while the industrial production figures for October indicated that output had *remained resilient in the face* of 12 per cent base rates.

Less encouraging were the employment and earnings figures, together with the inflation numbers for November (wholesale and retail).

The Treasury muttered about signs of slowdown all week, but, as Mr Michael Hughes of Barclays de Zoete Wedd noted, it was the Bank of England's banking return on Thursday which engendered a greater degree of confidence than seen earlier in the week.

Notes in circulation rose by 5.2 per cent in the week ending December 14, compared with a year earlier and compared with 7.3 per cent, 7.7 per cent and 8.1 per cent in the previous three weeks.

As Mr Hughes and other analysts noted, these numbers seemed to support the slightly weaker retail sales picture and lent *some support* to the view about the money base reacting *to interest rate rises with a* three- to four-month lag.

Mr Stephen Hannah, of County NatWest, takes a contrary view.

He believes the market's reaction was overdone and ignored important timing differences. The week of the 14th this year was not the same as the week of the 14th last year, he said. Furthermore, notes in circulation could rise six-fold during the run-up to Christmas. So, watch out.

* * *

The timing of last Wednesday's announcement of the reverse gilts auction must rate as one of the more bizarre in the history of the market.

The whisper is that the idea was more favoured in the Treasury than the Bank, hence Mr Nigel Lawson, the Chancellor, taking the unusual decision of announcing the move himself.

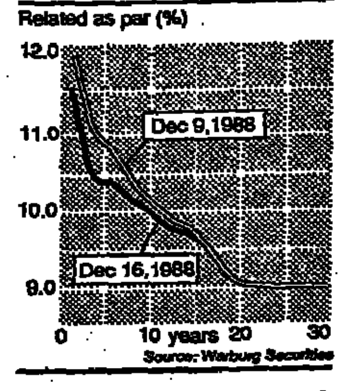
But, so what? It will be the market, by its response, which decides the success or failure of the reverse auction.

News of the January 13 reverse auction – which is slated for the same day to the year as the last of the "experimental" series of real auctions – was fairly well received. There was some grumbling from market markers that by opening up the Bank's buying-in activities to investors, the market makers had received another kick in the teeth from the authorities.

This is a potential worry but, if the history of the four sale-*by-auction of gilts is any guide,* the market markers should handle about 90 per cent of the business.

UK gilts yields

Related as par (%)



In any event, as the Bank made clear during the week, the reverse action is supplementary to, rather than a substitution for, its normal operations in the secondary market.

Mr Lawson made much of the size of this year's public sector debt repayment, which he believes will be £9.8bn ($17.8bn), and the need to sterilise its effects on the economy by buying back gilts.

The two auction stocks to be "auctioned" (a curious use of the word since the owners are being asked to offer prices to the Bank which it might or *might not accept)* are almost certainly likely to be held by the *monetary sector* and therefore would not count towards *Mr Lawson's need to buy gilts.*

In his Budget he defined funding *as sales or purchases* of government debt outside the M4 non-bank, non-building society sector. In the present case, that means purchases of gilts from investment institutions and the public. The Bank's and Treasury's answer to this is that if banks and building societies *sell* gilts in the auction they may want to replenish the shortage created.

In so doing they will buy some gilts off the non-*M4* sector and hence the Government's funding requirement will be met once removed. This seems a rather convoluted way *of achieving* something which the Bank could have done through *its own* secondary market actions.

Then there is the claim that, because of the heavy corporate tax payments *falling* due in January, there is a need to create *liquidity during* that period. Liquidity creation could just as easily *have* been effected through secondary market intervention, *although* it could be argued that it does have a virtue in being an efficient method of delivering liquidity.

The technique seems to offer the Bank a method of sucking up the less liquid stocks on issue, or simply to target some of the high coupon stocks in the medium area of the market.

Such a suggestion received a fairly frosty response from the Bank, but then again so did the idea of a reverse auction when it was mooted in the summer.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ca yld = exercise yield at current warrant price. Closing prices on DECEMBER 16

هكذا من الأصل

ONLY ONE VENTURE CAPITAL COMPANY STIRRED.

Kirklees Chemicals, one of the UK's major suppliers of emulsion polymers to the paint industry, recently completed a successful management buy-out from Kalon plc.

Managing Director John Topp approached several venture capital companies to arrange, lead and syndicate the buy-out with funding of over £10 million.

He picked Phildrew Ventures because of our "total commitment and willingness to underwrite. While the others were iffing and butting, Phildrew moved quickly."

Those are John's words, not ours, but they do sum up how we like to do things.

With our new £105 million equity fund, we can arrange deals of up to £1 billion. And while providing finance is our key role, we can also offer rather more. Like the creativity needed to help structure the right package. The speed to put it swiftly in place. And, above all, the enthusiasm to see things your way.

So if you're planning a management buy-out or buy-in, may we make a suggestion?

Before you do, look us up.

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PHILDREW VENTURES

Creative Capital For Management Buy-Outs

COB looks into Pechiney US deal

By Paul Betts in Paris

THE PARIS bourse has been shaken by insider trading allegations over the recent acquisition by Pechiney, the nationalised aluminium group, of American National Can (ANC), the leading US metal packaging company.

The Commission des Operations de Bourse (COB), the bourse watchdog, is to launch an inquiry into the affair after the New York Securities & Exchange Commission (SEC) informed the French agency of alleged irregular trading during Pechiney's friendly acquisition of ANC.

Mr Pierre Bérégovoy, the French Finance Minister, confirmed in a statement that he had asked Mr Jean Farge, the COB chairman, to act as quickly as possible to shed light on the allegations.

Mr Bérégovoy's statement reflects the French financial authorities' concern over the repercussions of the scandal on the credibility of the French financial markets at a time when they want to see Paris develop into a major international financial market.

The bourse was shaken earlier this year by a string of scandals in the fledgling financial futures market, the Matif.

The SEC unearthed the latest affair when it became suspicious of the unusually large volume of transactions over Triangle Industries, the parent company of ANC quoted on the New York over-the-counter market, just before Pechiney said on November 21 it was buying ANC.

The SEC is understood to have asked for the COB investigation after discovering that large orders for Triangle shares – about 2,000 – were placed from France between November 16 and 18, when the US group's shares were trading at around $10 each. After the acquisition announcement, Triangle shares jumped to $46.

Although the SEC and the COB have yet to ratify an agreement to swap information, Mr Farge said at the weekend that the "importance of the information transmitted by the SEC justified the decision of a COB inquiry."

Mr Farge was appointed head of the COB last July, after the Matif scandal, with instructions to tighten control of the financial markets, shaken not only by the Matif affair but by a growing wave of hostile takeover bids.

The affair has cast a cloud on the Pechiney acquisition, applauded by the Government as an example of enlightened state sector industrial strategy.

Daimler edges closer to stake in MBB

By Haig Simonian in Frankfurt

THE CHANCES of Daimler-Benz, the diversified West German motors group, taking a stake in Messerschmitt-Bölkow-Blohm (MBB) have increased after the plan appeared to run into difficulties last week.

Mr Matthias Kleinert, a Daimler official, said the company's board would be submitting plans which "will point to a definite decision in favour of a stake in MBB" at its meeting with its supervisory board on Wednesday.

The comment follows signs of last-minute snags during talks between Mr Edzard Reuter, Daimler's chief executive, and ministers in Bonn last week.

Mr Reuter, speaking in Frankfurt on Friday, also indicated that the remaining difficulties with the Federal Government – notably the Free Democratic Party, the junior partner in the centre-right coalition – and some of the states which own stakes in MBB were now on the way to being resolved.

According to some press reports, Daimler has made concessions to the state of Hamburg, where MBB has production facilities. Less clear is how the conditions raised by the Bavarian state government, which also has a holding in MBB, will be met.

Daimler has not confirmed that the difficulties with the FDP and some of MBB's owners have now been resolved. But the company's senior executives would be unlikely to put a proposal to its supervisory board without a solution in sight.

Meanwhile, speculation has increased about the timing of a Daimler rights issue, which depressed its share price last week.

The company has admitted it is thinking of raising new capital, although it has denied this is directly linked to its plan to buy a possible 30 per cent stake in MBB.

According to the newspaper, Süddeutsche Zeitung, Daimler would acquire its holding for just under DM1bn ($574.7m) via a MBB rights issue.

Harcourt chief to resign

By Roderick Oram in New York

MR William Jovanovich is to step down after 34 years as chief executive of Harcourt Brace Jovanovich, the US publishing house he plunged heavily into debt last year to saved it from takeover by Mr Robert Maxwell, the UK publisher.

The Orlando, Florida, company whose interests include the Sea World theme parks gave no reason for the management change.

Mr Ralph Caulo, president and chief operating officer, will take over as chief executive. Mr Jovanovich will remain chairman of the board and on its executive committee.

Mr Jovanovich fought off Mr Maxwell by giving his stockholders $50 a share in cash and stock dividends.

The recapitalisation was funded mostly by $2.9bn of borrowings that tripled the company's debt.

Harcourt was recently able to sell $100m of new common stock and $400m of public debt that allowed it to pay down some of its bank loans.

Mr Jovanovich, widely considered one of the leading post-war US publishers, joined Harcourt 41 years ago as a college textbook salesman. He became head of the division six years later and chief executive of the group the following year.

Split hampers Drexel talks

By Roderick Oram in New York

A SHARP split within Drexel Burnham Lambert is hampering the Wall Street firm's efforts to negotiate a settlement with the Government to avoid a lengthy and possibly debilitating trial on securities fraud and other charges.

Some senior executives, particularly those running lines of business unconnected with the issue, believe it would be less damaging to strike a deal.

They are anxious to bring to an end the costly and distracting two-year investigation stemming from the conviction of Mr Ivan Boesky, the insider trader with business links to the firm, particularly with Mr Michael Milken, the driving force behind its fabulously profitable junk bond operation.

The greatest resistance to plea bargaining is coming from executives closer to the controversy who are deeply concerned that any admission of guilt by the firm could undermine their own legal positions. They are arguing that the Government's case against the firm is weak.

They are particularly unhappy that the firm is considering severing its links with Mr Milken, a move that could jeopardise his defence. He and several associates have pleaded not guilty to civil charges brought by the Securities & Exchange Commission arising from their involvement with Mr Boesky.

The firm denied on Friday reports that several senior officers had threatened to resign if the firm agrees a settlement unfavourable to it or them.

Drexel is trying to strike a deal with the US Attorney's office in Manhattan to head off wide-ranging criminal charges involving securities fraud, insider trading and racketeering that would be filed against it. These would be in addition to the SEC's existing civil charges.

Mr Milken has played no part in the talks and some of his associates have recently agreed to co-operate with the Government in return for immunity from prosecution.

Drexel and the US Attorney's office are known to be discussing a package involving payment by the firm of between $500m and $750m to a trust for investors hurt by its activities, a guilty plea to a number of charges which would be far less severe than it would face at a trial, and the departure of Mr Milken on terms yet to be agreed.

The two sides have made considerable progress, but are stuck on some points, particularly over Mr Milken.

Bond Corp credit rating downgraded

By Chris Sherwell in Sydney

BOND CORPORATION, the international brewing, media and property group headed by Australian entrepreneur Mr Alan Bond, has suffered a sharp reduction in its already modest credit rating.

Australian Ratings, the country's best-known credit agency, has reduced its assessment of the group's long-term paper by two levels, from BB minus to B, principally because of the group's heavy borrowings.

It has also called into question the capacity of Mr Bond, through the family holding company which controls 55 per cent of Bond Corporation, to inject equity to match ambitious growth plans.

The agency's findings, revealed in a notification to clients sent out late last week, is potentially embarrassing for Mr Bond and comes at an unpropitious moment.

In Britain he is believed to be preparing a bid for Lonrho, the trading group, and is said to be still interested in Allied Lyons, the brewing group. He is also a potential bidder for Texaco Canada.

At the same time, he is continuing a rapid series of asset disposals in Australia and elsewhere following his expensive takeover of the Bell stable of companies, once controlled by Mr Robert Holmes à Court.

DIARY DATES

Trade Fairs and Exhibitions: UK

December 16-17
Cash and Carry Fashion Fair (01-727 1929) Kensington Town Hall

December 31-January 8
Model Engineers Exhibition (0442 41221) Wembley Centre

January 4-15
London International Boat Show (0932 854511) Earls Court

January 5-8
Holiday and Travel Fair (021-780 4171) NEC, Birmingham

January 7-12
International Toy Fair (01-226 8653) Harrogate

January 12-15
Northern Travel Fair (01-891 5061) G-Mex Centre, Manchester

January 15-18
International Lightshow Exhibition (0568-4656) Olympia

January 17-19
International Contract Flooring Exhibition (021-705 6707) Olympia

January 20-22
Daily Mail International Holiday Exhibition (0895-72277) Alexandra Palace

January 24-26
Hirex Exhibition (01-660 8008) Wembley Centre

January 28-February 1
British International Toy and Hobby Fair (01-701 7127) Earls Court

February 5-7
Fashion Fabric and Sewing Fair (0422 51215) Barbican

February 5-9
International Spring Fair (01-855 9201) NEC, Birmingham

February 7-9
Textile & Technology Exhibition (01-385 1200) G-Mex Centre, Manchester

February 9-12
Crufts Dog Show (01-493 7838) Earls Court

Overseas Exhibitions

January 11-14
Toy Show (01-930 7955) Hong Kong

January 15-19
International Food Fair of Scandinavia (Copenhagen 518811) Copenhagen

January 20-23
Leather and Suede Fashion Exhibition – PIELESPANA (0494-729406) Barcelona

January 23-26
Middle East Electronic Communications and Computer Graphics Shows and conference (01-486 1951) Bahrain

January 29-February 1
Irish Crafts Trade Fair (Dublin 684939) Dublin

January 29-February 1
International Confectionery, Chocolate and Biscuit and Pastry Trade Exhibition (01-225 5566) Paris

Business and management conferences

December 15
Pira: The single European market - the enlarged market and the implications for packaging (0372-376161) Blackburn

January 9-13
Management Training Consultants: Techniques of supervisory and management training for trainers (0533-627062) Leicester

January 10-12
AD 2000 Management Services/Indevo; Business location strategy (01-977 3474) The Barbican Centre

January 11
EBI Employee Relocation Council/Price Waterhouse: Moving experiences – the results of the Price Waterhouse survey of relocated organisations (01-379 7400) Centre Point, London

January 12
IPM: Managing human resources (01-946 9100) Chelsea Hotel, London

January 15-18
National Retail Merchants Association: annual convention and show (US 212-244 8780) New York

January 17-18
Institute for International Research: Corporate identity and design management (01-434 1017) CBI Conference Centre, London

January 19
Management Forum: Food and trading law developments (0483-570099) Cafe Royal, London

January 24
IPM: Pressure at work (01-946 9100) The Swallow International Hotel, London

January 30
IBC: Risk management planning and systems (01-236 4080) City Conference Centre, London

February 7-8
FT Conferences: The FT European Mergers and Acquisitions conference – Prospects in the Single Market (01-925 2323) Hotel Inter-Continental, London

February 13
The Institute of Petroleum: North Sea oil and gas-the first quarter century and the next (01-636 1004) London

February 20-21
FT Conferences: Cable television and satellite broadcasting (01-925 2323) Hotel Inter-Intercontinental, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL

TODAY

COMPANY MEETINGS-
Bailey (C.H.), Bute Dry Dock, Cardiff, 11.30
National Home Loans, Bahere Hall, Harp Lane, E.C., 12.00

BOARD MEETINGS-
Finals:
Croton Lodge & Knight
Interims:
Acatos & Hutcheson
Bimec Inds.
Broadwell Land
Explaura
F & C Smaller Co's.
Lovell (G.F.)
TR Trustees
Tamaris
Tops Estates
Victoria Carpet

DIVIDEND AND INTEREST PAYMENTS-
Ambrose Inv. Tst. 4.66p
Anglo Leasing 1.5p
Antero & Jackson 0.1p
Carlton Inds. 5½pc Ln 1990/91 2.0821918p
Coles Myer A$0.10
EAB Finance FRN's 1993 $203.95
Eastern Produce 2.5p
English & Intl. Tst. 1.6p
Fleming Japanese Inv Tst 0.7p
Korea Exchange Bank FRN's 1995 £185.17
Land Securities 4.1p
Lowland Inv 3.7p
Multitrust 0.5p
Narborough Plantations 1.3p
Panama (Rep of) FRN's 1992 $446.65
Prestwick 1p
Redvers Environmental Services 2.5p
Rothschild (J) 4p
Sharpe & Law 1.15p
Smart (J) 4.2p
Smithkline Beckman 48cts

TOMORROW

COMPANY MEETINGS-
Drayton Consolidated Trust, 11, Devonshire Square, E.C., 12.00
Ensign Trust, 80, Finsbury Circus, E.C., 12.00
F & C Eurotrust, 1, Laurence Pountney Hill, E.C., 12.15
Priest Marians, Ritz Hotel, W., 12.15
Scottish National Tst., 125, West Regent Street, Glasgow, 12.00

BOARD MEETINGS-
Finals:
Claremont (UK)
Toshiba
Interims:
Braithwaite
Harris (Philip)
Sutcliffe Speakman
Tiphook

DIVIDEND AND INTEREST PAYMENTS-
Evron 60cts
Essex Water 3½pc Deb 1¾pc
Do. 4pc Deb 2pc
Do. 5pc Deb 2½pc
Do. 5pc 1985/91 2.5pc
Do. 7pc Deb 1986/88 3.5pc
Do. 7pc Deb 1987/89 3.5pc
Do. 7¼pc Deb 1991/93 3⅝pc
Do. 8pc 1991/93 4pc
Do. 10pc Deb 1992/94 5pc
Do. 10½pc Deb 1994/96 5¼pc
Halliburton 25cts
Hunting 2.5p
Ind. Credit & Inv. Corp of India FRN's 1991 $204.92
M&G American Recovery Fd. 2½p
Marine Midland Bank FRN's 1995 $216.44
Marine Midland Banks Inc FRN's 2009 $216.44
New Cavendish Estates 1.5p
Pfizer 55cts
Standard Chartered FRN's $154.52
Taiwan Power FRN's 1992 $409.84

WEDNESDAY DECEMBER 21

COMPANY MEETINGS-
Morse, Sir John Lyon House, High Timber Street, E.C., 11.00

BOARD MEETINGS-
Finals:
Bankers Inv. Tst.
Electronic Data Processing
IOM Enterprises
Interims:
Arlen
Northumbrian Fine Foods

DIVIDEND AND INTEREST PAYMENTS-
Abbey National B. S. FRN's 1991 £305.01
F&C Eurotrust 2p
Gloves 1.6p
Glynwed Intl. 3.46p
Hunting Associated Inds. 4p
Italy (Rep. of) FRN's 2000 $387.14
Lone Star Inds. 47.5cts
Riverview Rubber Estates 10sen

THURSDAY DECEMBER 22

COMPANY MEETINGS-
British Assets Trust, One Charlotte Square, Edinburgh, 12.30
Investors Capital Tst., One Charlotte Square, Edinburgh, 12.00

BOARD MEETINGS-
Finals:
Kalkey Inds.
Interims:
Firstland Oil & Gas

DIVIDEND AND INTEREST PAYMENTS-
Drayton Cons. Tst. 9.9p
Great Universal Stores 78.6p
Do. "A" 19.8p
Hopkinsons 7p
India (Govt. Bank of) FRN's 1997 $406.57
Investors Capital Tst. 4p
National Telecommunications 0.75p
Portsmouth & Sunderland Newspapers 1.61p
Unilever FL1.23

FRIDAY DECEMBER 23

COMPANY MEETINGS-
30, Finsbury Circus, E.C., 12.00

DIVIDEND AND INTEREST PAYMENTS-
American Cyanamid 30cts
Anglia Building Society FRN's 1996 £151.73
Banco Espir Santo E Com De Lisboa FRN's 1990 $419.38
FR 4.2pc 2nd Pf 2.1p
Hanover Druce 1.5p
National & Provincial B. S. FRN's 1995 £152.23
O'seas Inv. Tst. 1.36p

SATURDAY DECEMBER 24

DIVIDEND AND INTEREST PAYMENTS-
Manchester 3pc Cons. 1928 (or after) 1.5pc
Do 4pc Cons. Irrd. 2pc
Met. Water Kent Water Works 3pc Deb 1.5pc

PARLIAMENTARY

Today

Commons: Private Members motions until 7pm. Motion for Christmas adjournment. Proceedings on the Consolidated Fund Bill.

Lords: Children Bill, committee. Motions on Bristol Development Corporation orders.

Select committees: Examiners of Petitions for private bills, Standing Orders proofs. (Room 16, 10.30am and 2.00-3.00pm.

Home Affairs: Subject, Forensic science services. Witness: Earl Ferrers, Home Office Minister of State.(Room 15, 4.15pm).

Environment: Subject, Toxic waste. Witness: Aspinwall and Co. Ltd (Room 21, 4.30 pm).

Public Accounts: Subject, The Crown Estate. Witness: Dr K. Dexter, Second Crown Estate Commissioner (Room 16, 4.30 pm).

Tomorrow

Commons: Motions on Social Security uprating and re-rating orders. Motion on Scottish Affairs Select Committee. Motion on Welsh Rate Support Grant. Motion on ministerial and other salaries order.

Lords: Consolidated Fund Bill, all stages. City of Glasgow District Council order confirmation Bill, third reading. Children Bill, Committee.

Motions for approval on the ministerial and other salaries order 1988, and Agricultural Improvement (variation No 2) scheme 1988.

Select committees: Members interests: subject, Parliamentary lobbying. Witnesses: Keep Sunday Special, and Sort Out Sunday, opponents and supporters of the Shops Bill 1986 (Room 15, 4.30 pm).

Committee on Private Bills: Associated British Ports (No 2) Bill; North Killingholme cargo terminal Bill (Room 6, 10.30 am).

Wednesday

Commons: Official Secrets Bill, second reading. Debate on motion relating to EC structural funds.

Lords: Debate on problems of preservation of historic buildings and treasures. Question to government on progress towards privatisation of British Rail.

Select Committee: Committee on Private Bills - Associated British Ports (No 2) Bill; North Killingholme Cargo Terminal Bill (Room 6, 10.30 am).

Thursday

Commons: Adjournment debates.

Lords: Civil Aviation (Air Navigation Charges) Bill, second reading. Motions on merchant shipping (safety at work regulations) (non-UK ships) regulations, social security (contributions and allocations of contributions) (re-rating) order and the social security benefits uprating order 1988.

CONSTRUCTION CONTRACTS

Warehousing in Dunstable

Construction work on contracts worth about £30m is due to be started in the next couple of months by **TARMAC CONSTRUCTION**. The largest, at nearly £7m, is for building four warehouse units, totalling about 23,000 sq metres, at Dunstable, Bedfordshire, for Chiltern Park Estates.

Large projects also include building two-storey industrial units and offices at St Columb Major, Cornwall, for Pall Europe Corporate Services (£6.3m); and fitting-out six-storey offices in Euston Road, London, for the Prudential Assurance Co (£6.2m).

In Cross Street, Manchester, within a conservation area, the company has a £3.7m contract for designing and building five-storey offices behind the retained facade, for the Manchester Commercial Building Co.

Other contracts are for refurbishing a shopping centre at Hartlepool, for the Borough Council (£1.7m); paving works on the Isle of Dogs, for London Docklands Development Corporation (£630,000); and building a letter delivery office at Leigh, Lancashire, for Royal Mail Letters (£399,000).

Housing association developments

Contracts for construction work, worth in excess of £20m, have been awarded to seven of the **WILLMOTT DIXON** companies.

The specialist house building branch of Willmott Dixon, Willmott Dixon Housing, has been awarded contracts by two housing associations. One, worth more than £6m, will involve building 114 flats and 28 sheltered homes for the East London Housing Association at Woodgrange Park, London E12.

The company is also engaged on a similar but smaller project, valued at £1.5m, at Harold Hill, Havering, Essex where it is constructing a three-storey block of sheltered accommodation for Servite Houses.

Four contracts totalling £5.3m have been awarded to Willmott Dixon Construction, also based at Shefford. The largest is for the construction of an office block for Land & Urban at Brent Cross Plaza, London NW4 and is worth £3.5m.

The other three contracts are to build a two-storey extension to the baggage hall at Luton Airport at a cost of £944,000; to build a two-storey office extension fo the TSB at Breckland, Milton Keynes at a cost of £610,000; and a £195,000 contract for the Property Services Agency to remove asbestos from a hangar at Waterbeach Barracks in Cambridgeshire.

Willmott Dixon London has a £584,000 contract to build a music block at Dulwich College preparatory school and a contract, valued at £363,000, to refurbish a recording studio and build a three-storey extension for Zomba Productions at High Road, Willesden, London NW10.

Another Willmott Dixon company, Bush Gould of Norwich, is at work on two new projects. The first involves the refurbishment of a five-storey office block for Norvic House Property Management Services at Chapelfield Road, Norwich in a contract valued at £974,000; and the second, worth £409,000, is the first phase of a horse training establishment at Hamilton Stud, Newmarket, for Dr John Scargill.

Willmott Dixon Design and Build has been awarded a contract, worth in the region of £3.5m, for the refurbishment and extension of a retail store at Holloway Road, London N7 for Morleys Stores.

Housing the computer department

Three building contracts spanning commercial, industrial and leisure sector projects, together valued at £22.3m, have been won by **BOVIS CONSTRUCTION (SCOTLAND)**.

At Dalkeith, near Edinburgh, Bovis is to be build a £12.5m computer facility for Scottish Widows Fund & Life Assurance Society. The premises will house the company's computer department in a 95,000 sq ft single-storey building with two internal landscaped courtyards. Contract duration is 14.5 months with completion due by the end of February 1990.

At St. Andrews, Bovis is carrying out an £8.5m contract to refurbish the Old Course hotel and country club. The client is Rosewood/Seiyo International of Dallas and the contract is to be completed in three stages, with the hotel being totally refurbished in time for the return of the Scottish Open Golf Championship to St. Andrews in 1990.

At Cumbernauld, Bovis has won a £1.3m management contract for the construction of two factory units for Ravenstone Securities (Holdings). Both units, one of 21,500 sq ft and the other of 32,000 sq ft, are due for completionn in May.

And in Glasgow Bovis is overseeing the dismantling of the Garden Festival project. Some of the festival site will remain, with the formation of a park, the creation of a business zone and an area adjacent to the River Clyde being designated by the client, the Scottish Development Agency, for future commercial and leisure use. It is anticipated that the total scope of the dismantling works, with a budget of around £2m, will be completed by Christmas.

Civic office accommodation scheme

PENTAGON DESIGN AND CONSTRUCTION has been awarded a contract, valued at £10.1m, by the London Borough of Lewisham to design and construct civic office accommodation at Catford, London, SE6.

The 114,000 sq ft building is the first phase in the redevelopment of the site adjacent to the town hall. Six storeys will provide a permanent base for council staff presently located in a variety of leased office premises which the Council says cost £3m per year.

An artist's impression of the proposed library and assembly hall being built for the London Borough of Merton.

The works for the redevelopment of Great Ormond Street Hospital for sick children and a library and assembly hall for the London Borough of Merton are included in £12.2m contracts won by **EVE CONSTRUCTION**, the construction division of Eve Group.

The Great Ormond Street contracts are valued at £3.48m. The programme of works has to be synchronised with the hospital to avoid as much as possible disturbance to patients and staff. For the new pharmacy and infectious diseases ward, exceptionally high construction specifications on airtightness and workmanship are involved. Cytotoxic and asceptic clean areas must conform to Medical Health Inspectorate standards.

The £3.8m Merton project comprises a three-storey library and assembly hall formed as two three-storey pavilions on either side of a central glazed atrium concourse area.

A £3m contract has been placed with Eve for a gymnasium, drama hall and library, together with additional classroom and games changing areas and some alterations to school buildings at Christ's College School in Barnet, London. For the London Borough of Islington Eve is to carry out improvements and repairs to 52 homes in a contract valued at £1.84m.

A £1.15m contract from Ravenstone Securities (Holdings) for offices and town houses at St George's Road, Wimbledon, all with brick facings, reconstituted stone features as well as oak joinery and high quality finishes, completes the total.

Industrial units in Sussex

Contracts totalling £7m has been awarded to **LOVELL CONSTRUCTION**. At Birches Industrial Estate, East Grinstead, Lovell has been awarded a design-and-build contract worth £3.3m to construct 11 industrial units for Lynton Properties and Beamland. The units vary in size from 195 sq metres to 1,492 sq metres and will provide an area totalling 7,897 sq metres gross. The office element of each unit will be clad with curtain walling. The scheme is due for completion in September 1989.

At Park One, a business and technology centre in Bracknell, Lovell is linking two low-rise buildings and fitting out both buildings for the new occupiers Cray Research. The contract is valued at £1.7m and comprises a "bridge" structure to link Hyde House and St James House at first floor level. The fitting-out work is predominantly at ground-floor level and involves construction of a raised floor, the installation of electrical and heating services, and converting the concrete shell into a modern building with high-quality fittings and finishes.

At Horsham, Lovell is building a five-storey office block for Crest Estates. The contract, valued at around £2m, will provide 25,000 sq ft gross of office space on four floors plus underground and surface car parking for up to 78 vehicles. The development will be of reinforced concrete frame construction with traditional brick and facing block cladding and a pitched tiled roof.

Variety theatre to bowls centre

HOULTONS has won six design and build contracts, worth more than £3.3m, for indoor bowls centres including one which replaces Scarborough's Victorian variety theatre, the Floral Hall.

The 2,600 sq metres project for the Borough Council, worth close to £1m, is part of a multi-million pound leisure redevelopment scheme in the North Bay.

four already completed bowls projects designed in accordance with English Indoor Bowling Association guidelines and include one at Hereford, for the Park Hall Club, which has to be constructed around a giant sequoia.

The other projects are for The Lawson Bowling Club at Kempston, Bedford, the Camberley and District Indoor Bowling Club, Surrey, and clubs in Leicestershire and South Wales.

Andover shopping project

The Chantry Way Shopping Centre, Andover, developed and owned by Test Valley Borough Council and Sun Life Assurance Society, is to be upgraded by **TAYLOR WOODROW MANAGEMENT CONTRACTING** under a £10m contract.

Some 40,000 sq ft of retail space will be added, together with a multi-storey car park with 650 spaces. The shopping malls will all be covered over with glazed roofing and all internal finishes upgraded.

Work is due to start on site in January for completion by Easter 1990.

Hospital extension

Phase 3 of the Hemel Hempstead General Hospital redevelopment is underway now that **NORWEST HOLST CONSTRUCTION** has begun its latest £12m contract.

The project comprises a nucleus development, sited on a sloping area adjacent to the hospital buildings. The three-storey concrete framed building will provide 11,500 sq metres of floor area housing maternity, pathology and psychiatric facilities, including wards, a day hospital and a mortuary laboratory.

★

HAVELOCK EUROPA has broken into the Scandinavian market with the award of a £2.2m contract in Helsinki for Finland's department store group OY Stockman. The contract takes in the existing store and the new ARGOS extension which increases the selling area by one third to 26,000 sq metres.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

London & Manchester (Tst Mgmt) Ltd (1000)H

Winslade Park, Exeter EX5 1DS 0392 282673

American	5	27.86	28.19xd	29.93	0.8	40828
General	5	46.76	46.95xd	49.84	3.6	40829
Income	5	43.57	43.86	46.56	5.6	40830
International	5	34.04	34.36	36.48	0.9	40831
Japan	5	51.11	51.42	54.59	0.0	40832
Tst of Inv Trusts	5	34.86	35.46	37.64	2.0	40833

M & G Securities (y) (0915)H

Three Quays, Tower Hill, EC3R 6BQ

Cust Services 01-626 4588 Unit Dealing 0245 266266

Amer & General	5	190.15	190.2	201.1	1.46	40834
(Accum Units)	5	226.96	227.0	240.1	1.46	40835
Amer Recovery	5	211.32	211.8xd	225.6	0.97	40836
(Accum Units)	5	235.26	235.9	251.2	0.97	40837

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows. ψ - 0001 to 1100 hours; ‡ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

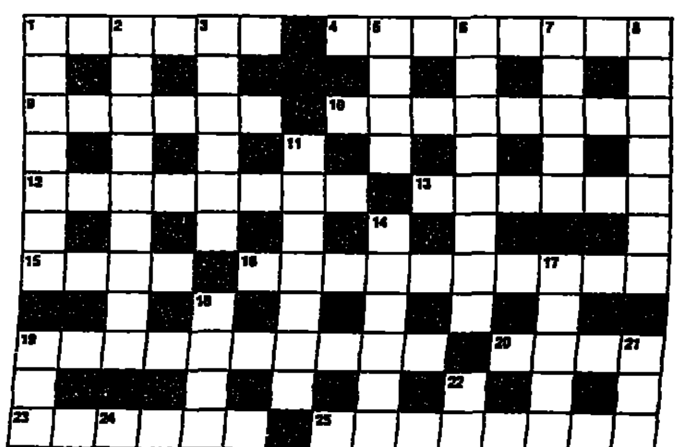
FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

Other explanatory notes contained in last column of the FT Unit Trust Information pages.

JOTTER PAD

CROSSWORD

No.6,815 Set by PROTEUS



ACROSS

1 Garment overweight duck put to some purpose (6)
4 Perfect novice has to enter to seek for prize (8)
9 Outcome of lofted drive (6)
10 Drink journalist takes when frustrated (8)
12 4 perhaps or 6 – that is the limit! (8)
13 Fear of mistake by model (6)
15 Check precipitation in speech (4)
16 Show full awareness of rise in value (10)
19 Where one may find shelter in windy sea? (7,3)
20 Expression of grief a girl uttered (4)
23 Some find it easy to compose (6)
25 Father confessor to the film industry? (8)
27 No loss from meditation being copied (8)
28 Disturbance caused by gadfly (6)
29 Salutation bringing tears to Scotland (8)
30 Sets forth conditions (6)

DOWN

1 Fat one who cries (7)
2 Rictus boy concealed in darkness (9)
3 Throw out peculiar cloth (6)
5 Formerly to be found in London cemetary (4)
6 Forbearance shown by a model – one without money (8)
7 Partly perceive the result in the clear upper air (5)
8 Finish rose-plot at back (7)
11 Excursionist making a slip (7)
14 Mad French caper (7)
17 Amount allocated for plot to be cultivated (9)
18 Leading Dutch artist embracing one in absent-minded fashion (8)
19 Fish of size (7)
21 Calls emitted by Sunday hikers? (7)
22 Got to know humorist by book (6)
24 Hurry on stroke (5)
26 Bird responsible for revolution it is said (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 31.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

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TSB Unit Trusts (y) (1000)F

Murray Johnstone UT Mngmt

New Court Property Fund Managers

Phillips & Drew Fund Management Ltd

J. Rothschild Fund Managers Ltd

Black Horse Life Ass. Co Ltd

Colonial Mutual Group—Contd.

Combined Insurance Co of America

Commercial Union Group

Framlington Life Insurance Ltd

Friends' Provident

Hearts of Oak Insurance Group

Henderson Administration (z)

Legal & General—Contd.

Legal & General (Unit Pensions) Ltd

Merchant Investors Assurance Co Ltd – Contd.

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
National Mutual Life				
The Priory, Priory Pk. Hitchin, SG5 2DW				0462 422422
Managed Fund	193.6	203.8	–	43122
Managed Prospect Fund	157.8	166.2	–	43123
UK Equity Fd.	232.3	244.6	–	43124
Fixed Interest	157.9	166.3	–	43125
Pacific	224.6	236.3	–	43126
North American	101.7	107.1	–	43127
Pens. Managed	218.7	230.3	–	43128
Pens. UK Equity	248.9	262.1	–	43129
Pens. Overseas Equity	277.8	292.5	–	43130
Pens. Property	172.8	181.9	–	43131
Pens. Fixed Interest	172.1	181.2	–	43132
Pens. Index Linked	131.8	138.8	–	43133
Pens. Deposit	163.6	172.3	–	43134
P.R.P. UK Equity	108.3	114.0	–	43135
P.R.P. Overseas Equity	98.9	104.2	–	43136
P.R.P. Fixed Interest	117.1	123.3	–	43137
P.R.P. Property	143.0	150.6	–	43138
P.R.P. Index Linked	119.2	125.5	–	43139
P.R.P. Deposit	113.0	119.0	–	43140
P.R.P. Managed	109.7	115.5	–	43141
P.R.P. With Profits	118.2	124.5	–	43142
National Provident Institution				
48 Gracechurch St, London EC3P 3HH				01-623 4200
Managed	287.6	302.8	–	43163
UK Equity	354.4	373.1	–	43164
Overseas Eq.	264.0	277.9	–	43165
Americas	198.9	209.4	–	43166
Far East	331.2	348.7	–	43167
Property	192.8	203.0	–	43168
Fixed Int.	216.4	227.8	–	43169
Indexed Gilt	127.2	133.9	–	43170
Deposit	144.5	152.2	–	43171
Pension Fund (Accum Units)				
Managed	371.8	391.4	–	43173
UK Equity	413.8	435.6	–	43175
Overseas Eq.	416.3	438.3	–	43177
Americas	265.6	279.6	–	43179
Far East	555.4	584.7	–	43181
Property	228.5	240.6	–	43183
Fixed Int.	249.3	262.5	–	43185
Indexed Gilt	137.7	145.0	–	43187
Deposit	183.7	193.4	–	43189
NPI Pensions Management Ltd				
Managed Fund	890.1	906.0	–	43190
Prices December 1 Next dealing January 3				
Norwich Union Asset Management Ltd				
PO Box 124, Norwich NR1 1JS				0603 683986
NUAM Funds				
Managed Fund	53.2	56.0	–	43191
Stock Market Mngd Fund	50.7	53.4	–	43192
Equity Fund	53.5	56.3	–	43193
International Fund	48.5	51.1	–	43194
European Fund	49.4	52.0	–	43195
North American Fund	42.7	44.9	–	43196
Pacific Fund	60.2	63.3	–	43197
Property Fund	68.6	72.3	–	43198
Fixed Interest Fund	51.7	54.5	–	43199
Index linked Sec Fund	52.9	55.7	–	43200
Deposit Fund	55.1	58.1	–	43201
NUAM Retirement Plans				
Mixed Fund	56.6	59.6	–	43202
UK Ordinary Share Fd	61.1	64.4	–	43203
International Fund	50.5	53.1	–	43204
Property Fund	67.3	70.9	–	43205
Fixed Interest Fund	56.6	59.6	–	43206
Index Linked Sec Fund	54.3	57.1	–	43207
Deposit Fund	59.6	62.7	–	43208
NUAM (NIF)				
Managed Fund	743.7	782.9	–	43209
Equity Fund	1452.2	1528.7	–	43210
Property Fund	432.3	455.1	–	43211
Fixed Interest Fund	386.0	406.4	–	43212
Deposit Fund	225.8	237.7	–	43213
International Fund	127.5	134.3	–	43214
Index Linked Sec Fund	53.6	56.5	–	43215
Norwich Union Life Insurance Soc.				
PO Box 149, Norwich NR1 3NG				0603 622200
Unitised Pensions				
With Profits Fd	109.24	114.99	–	43216
Managed Fd	124.27	120.29	–	43217
UK Equity Fd.	113.16	119.12	–	43218
International Fd	119.88	126.19	–	43219
European Fd	112.84	118.78	–	43220
North American Fd	108.83	114.56	–	43221
Pacific Fd	117.58	123.77	–	43222
Property Fd	122.47	128.92	–	43223
Fixed Int Fd	100.20	105.48	–	43224
Intl Bond Fd	102.67	108.07	–	43225
Bldg Soc Dep Fd	104.04	109.51	–	43226
Pensionvestor & Unit-Linked Plus**				
Fixed Interest Fund	281.9	296.8	–	43227
Index-Linked Sec Fund	153.8	161.9	–	43228
Ordinary Share Fund	443.4	466.8	–	43229
International Fund	128.9	135.7	–	43230
Property Fund	207.8	218.8	–	43231
Deposit Fund	186.4	196.2	–	43232
Mixed Fund	313.6	330.2	–	43233
Norwich Units October 25		772.28	–	43234
*Prices as at December 13				
Pearl Assurance (Unit Funds) Ltd				
252 High Holborn, London WC1V 7EB				01-405 8441
Prop Dist. (Gross)	177.7	187.1	–	43235
Prop Acc (Gross)	299.4	315.2	–	43236
Equity (Gross)	623.4	656.2	–	43237
Managed (Gross)	463.5	487.9	–	43238
Prop Acc (Net)	138.5	145.8	–	43239
Equity (Net)	149.9	157.8	–	43240
Managed (Net)	144.1	151.7	–	43241
International (Net)	128.8	135.5	–	43242
Gilt & Fxd Interest	100.0	105.3	–	43243
Money Fund	102.6	107.9	–	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	437.4	460.5	–	43245
Ret Man (Series 2)	148.3	156.2	–	43246
Ret Man (Series 3)	97.8	97.8	–	46462
Ret Cash	128.1	134.8	–	43247
Ret Cash (Series 3)	105.1	105.1	–	46463
Phoenix Assurance Co Ltd				
Phoenix House, Redcliff Hill, Bristol				0272 294941
Life Assurance Funds				
Wealth Assd	380.1	400.2	–	43248
Eb'r Ph Eq.	345.3	367.6	–	43249
Pension Plan Funds				
Phoenix				
UK Equity Acc.	163.5	172.1	–	43250
International Acc.	137.7	144.9	–	43251
Property Acc	156.4	164.6	–	43252
Fixed Interest Acc.	156.2	164.4	–	43253
Money Acc.	147.6	155.3	–	43254
Bldg Soc. Link Acc.	144.6	152.2	–	43255
Special Mngd Acc.Q	150.7	158.6	–	43256
Phoenix/Framlington				
Intnl Growth Acc.	82.40	86.70	–	43257
Am Smllr. Cos. Acc.	80.30	84.50	–	43258
Capital Tst. Acc.	162.9	171.4	–	43259
Japan & Gen Acc.	199.6	210.1	–	43260
American Turn Acc.	90.00	94.70	–	43261
Recovery Tst. Acc.	174.7	183.8	–	43262
Special Mngd Acc.	146.0	153.6	–	43263
Phoenix/GT				
International Acc.	133.1	140.1	–	43264
US & General Acc.	83.70	88.10	–	43265
Amer Spec Sits Acc.	61.50	64.70	–	43266
Japan & General Acc.	196.0	206.3	–	43267
Far East & Gen. Acc.	144.0	151.5	–	43268
UK Capital Acc.	176.7	185.9	–	43269
European Acc.	155.4	163.5	–	43270
Special Mngd. Acc.	128.9	135.6	–	43271
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool				051-928 6655
Managed Fund	248.2	261.5	–	43272
Man Pens Inc & Cap Fds.	309.8	326.2	–	43273
Money Fund	115.7	121.8	–	43274
Pens Mngd Fd (Init)	83.7	88.2	–	43275
Pens Mngd Fd (Acc)	98.5	103.7	–	43276
Pens FT30 Fd (Init)	121.1	127.5	–	43277
Pens FT30 Fd (Acc)	142.6	150.2	–	43278
Pens O'seas MgFd(Init)	59.79	62.9	–	43279
Pens O'seas MgFd(Acc)	70.3	74.0	–	43280
Pens Fxd Int Fd (Init)	104.8	110.4	–	43281
Pens Fxd Int Fd (Acc)	123.4	129.9	–	43282
Pens Deposit Fd (Init)	102.4	107.8	–	43283
Pens Deposit Fd (Acc)	120.5	126.9	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath				0444 458721
American	99.0	105.0	–	43285
Building Soc. Fd.	166.0	175.0	–	43286
Balanced	246.0	259.0	–	43287
Deposit	165.0	174.0	–	43288
European	138.0	146.0	–	43289
GT Managed	153.0	162.0	–	43290
Gartmore Mngd	100.0	106.0	–	43291
German	96.0	102.0	–	43292
Gilt	167.0	176.0	–	43293
Global	47.0	50.0	–	–
High Inc	106.0	112.0	–	43294
International Equity	158.0	167.0	–	43295
Japan	219.0	231.0	–	43296
Managed	55.0	58.0	–	43297
Property	270.0	285.0	–	43298
R W Imperial Gold	115.0	122.0	–	43299
UK Equity	311.0	328.0	–	43300
Pension Funds				
American	119.0	126.0	–	43301
Building Soc. Fd	161.0	170.0	–	43302
Balanced	190.0	200.0	–	43303
Deposit	157.0	166.0	–	43304
European	139.0	147.0	–	43305
German	88.0	93.0	–	43308
Gilt	139.0	147.0	–	43309
International Equity	115.0	122.0	–	43310
Japan	124.0	131.0	–	43311
Managed	56.0	59.0	–	43312
Property	208.0	219.0	–	43313
UK Equity	276.0	291.0	–	43314
Prolific Life & Pensions Ltd				
Stramongate Kendal Cumbria LA9 4BE				0539 33733
Managed Fund see Balanced Growth Managed Fund				
Balanced Gwth Mngd	500.8	527.8	–	43315
Adventurous Mngd	100.9	106.4	–	46402
Secure Mngd	98.0	103.3	–	46403
Cash Fd.	224.0	236.1	–	43316
Property Fund	272.8	287.5	–	43317
Equity Fund	540.7	569.8	–	43318
Fxd Int Fund	281.2	296.4	–	43319
International	247.3	260.6	–	43320
High Income	391.9	413.0	–	43321
Far East	380.5	401.0	–	43322
North American	196.9	207.5	–	43323
Special Sits	477.8	503.5	–	43324
Technology	204.4	215.4	–	43325
Extra Inc Fd	230.7	243.2	–	43326
Convertible & Gilt Fd.	141.9	149.6	–	43327
American Income	100.6	106.1	–	43328
Gilt Fund 20	289.8	308.3	–	43329
European Fund	94.0	98.6	–	43330
Pref & Fixed Int	95.2	100.4	–	46332
Balncd Gth Mgd Pens Acc.	475.5	500.6	–	43331
Adventurous Mgd Pens Acc.	94.8	99.6	–	46404
Secure Mngd Pens Acc.	95.9	101.0	–	46405
Building Soc. Acc.	229.8	241.9	–	43332
Property Pens Acc.	271.7	286.0	–	43333
Fix Int Pens Acc.	374.3	394.1	–	43334
Equity Pens Acc	604.2	636.0	–	43335
International Pens Acc.	218.8	230.4	–	43336
High Inc Pens Acc	404.2	425.5	–	43337
Tech Pens Acc.	129.1	134.9	–	43338
N American Pens Acc	128.1	134.9	–	43339
Far Eastern Pens Acc.	361.8	380.9	–	43340
Special Sits Pens Acc.	383.7	403.9	–	43341
Extra Income Pens Fd	264.5	278.5	–	43342
Convertible & Gilt Pen.	150.5	158.5	–	43343
American Inc Pens	107.0	112.7	–	43344
European Pens	85.9	90.5	–	43345
Managed Cash Pens.	105.4	111.0	–	–
Pref & Fixed Pens.	96.1	101.2	–	46333
Broker Funds				
Acorn Managed Fund	141.4	148.9	–	43348
Portfolio 2000	127.1	133.8	–	43349
Boston Intnl Managed	93.4	98.4	–	43353
PBM Max Gwth & Inc	91.1	95.9	–	43368
DWC Growth & Income	96.5	101.6	–	–
For Capital Unit and Other Prices ring 0539-33733				
Property Equity & Life Ass. Co				
Baxter Ave, Southend SS2 6QH				0702 333433
Int Man Pension Fd	129.9	136.7	–	43369
Int. Man Crecy Bd Fd		131.0	–	43370
Int Man Crecy Bd Fd(c).		120.6	–	43371
Flexible Prop Bd Fd		268.1	–	43372
Flexible Money Bd Fd		307.6	–	43373
Special Man Inc. Fd		123.4	–	43374
Property Growth Assur Co Ltd				
Sun Alliance House, Horsham				0403 641411
Property Fund		415.4	–	43375
Property Fund (A)		396.3	–	43376
Agricultural Fund		519.4	–	43377
Agric. Fund (A)		499.2	–	43378
Abbey Nat. Fund		308.0	–	43379
Abbey Nat Fd (A)		331.5	–	43380
Investment Fund		206.2	–	43381
Investment Fund (A)		199.7	–	43382
Equity Fund		732.2	–	43383
Equity Fund (A)		710.4	–	43384
Money Fund		307.8	–	43385
Money Fund (A)		298.1	–	43386
Actuarial Fund		345.2	–	43387
Gilt-Edged Fund		258.2	–	43388
Gilt-Edged Fd (A)		258.2	–	43389
Retire Annuity		809.0	–	43390
Immed Ann'ty		323.0	–	43391
International Fd		379.1	–	43392
Bldg Soc Life Fd		153.5	–	43393
Property Growth Pensions & Annuities Ltd				
All Weather Ac. Uts	432.7	455.5	–	43394
Inv Fd Uts		463.3	–	43395
Pension Fd Uts		450.8	–	43396
Conv Pens Fd		522.6	–	43397
Cnv Pns Cap Ut		325.8	–	43398
Man Pens Fd		600.8	–	43399
Man Pens Cap Ut.		389.3	–	43400
Prop Pens Fd		532.1	–	43401
Prop Pens Cap.Uts.		336.3	–	43402
Bldg Soc Pen Ut		462.3	–	43403
Bldg Soc Cap Ut.		299.9	–	43404
Gilts Pens Fd.		272.7	–	43405
Gilts Pens Fd Cap		198.9	–	43406
Equity Pens. Fd		495.0	–	43407
Equity Pens Fd. Cap.		361.4	–	43408
Intl Pens Fd.		173.6	–	43409
Intl. Pens. Fd Cap		145.5	–	43410

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

UK LISTED

[illegible]

IoM AUTHORISED

[illegible]

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,250	Treas 11½pc 1989	99[illegible]	12.90	18.7	22 Aug 22 Feb	1291
855	Treas 9½pc Cnv 1989	99	12.50	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	97[illegible]	10.44	10.10	15Nov 15May	1327
1,400	Treas 10½pc 1989	99[illegible]	10.29	7.11	14Dec 14Jun	1287
2,400	Exch. 10pc 1989	98[illegible]	12.28	27.6	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99[illegible]	12.03	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	95½	10.64	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pcCv '89	99¼	11.31	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101[illegible]	11.35	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99[illegible]	11.19	6.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	101[illegible]	11.30	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	91[illegible]	9.93	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	96[illegible]	11.15	8.11	15 Dec 15 Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	96[illegible]	10.56	12.12	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	98	11.23	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	87[illegible]	9.74	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	101[illegible]	11.21	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	89[illegible]	10.85	1.9	5Oct 5Apr	1275
400	Treas. 3pc 1991	86	9.64	7.10	13Nov 13May	1326
646	Treas 10pc Cv '91 ‡‡	98[illegible]	10.65	6.12	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	99[illegible]	11.08	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	92[illegible]	10.97	3.11	10Jan 10Dec	1335
900	Treas 12¾pc 1992‡‡	104[illegible]	10.78	16.12	22Jul 22Jan	1297
1,600	Treas 10pc 1992	97[illegible]	10.82	15.7	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	92[illegible]	10.78	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	99[illegible]	10.77	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	82½	9.20	4.11	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	104[illegible]	10.78	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	108[illegible]	10.76	16.8	22Mar 22Sep	1266
950	Treas 8¾pc 1993	92[illegible]	10.57	12.7	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	98[illegible]	10.50	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	106[illegible]	10.66	8.12	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	85½	9.90	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	111[illegible]	10.66	17.10	23May 23Nov	1304

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,050	Treas. 8½pc 1994	91[illegible]	10.63	27.6	3Aug 3Feb	–
750	Treas 8½pc 1994 A	91[illegible]	10.66	–	3 Feb 3 Aug	–
600	Treas 14½pc 1994‡‡	115[illegible]	10.60	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	110[illegible]	10.72	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	98[illegible]	10.42	2.11	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	107[illegible]	10.73	18.7	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	94[illegible]	10.37	11.10	17May 17Nov	1345

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	43[illegible]	–	27.6	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	39[illegible]	–	22.11	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft	61[illegible]	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	31[illegible]	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	27[illegible]	–	1.12	5Ja Ap Jul O	1238
475	Treas. 2½pc	27[illegible]	–	25.8	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld. (b) **	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	123[illegible]	3.66	20.6	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	103[illegible]	3.64	17.8	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	94[illegible]	3.77	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	139[illegible]	3.70	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	118[illegible]	3.81	18.8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	115[illegible]	3.85	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	117[illegible]	3.84	13.12	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	110[illegible]	3.82	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	115	3.80	18.7	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	95[illegible]	3.79	11.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	103[illegible]	3.74	20.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	101[illegible]	3.67	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	85[illegible]	3.62	12.12	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for April 1988: 105.8 and for November 1988: 110.0

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
4,689.5	USX $1	15⅛	$1.40	5.0	2.11	Mr Je Se De	4380
118.0	♥Unilab	127p	–	–	–	–	–
2,852.8	Utd. Technologies	21¼	$1.60	4.1	15.11	Mr Jn Sp Dc	4381
–	♥Utilitech Inc.	126p	–	–	–	–	–
6,411.9	US West‖	32	$3.52	6.1	13.4	Fb My Ag No	–
5,018.4	Waste Management $1	22¼	48c	1.2	16.12	Ap Jly Oc Jan	4439
926.0	Whirlpool $1	13⅛	$1.10	4.5	30.11	Mr Jn Se De	–
1,961.8	Whitman Corp.	17½	96c	3.0	6.12	Ap Jy Oc Ja	2951
1,806.1	♥Woolworth $3½	27½	$1.64	3.3	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥ABM Gold Corp ‖	148p	–	–	–	–	–
–	♥Abbot Energy Corp.	7p	–	–	–	–	–
508.0	♥Amer. Barrick Res.	882p	–	–	–	–	–
–	♥Amer Lightwave ‖	3p	–	–	–	–	–
–	♥Armeno	18p	–	–	–	–	–
–	♥Augmitto Expln.	39p	–	–	–	–	–
1,286.5	Bk. Montreal ‖	12⅛	$2.00	7.4	8.8	Fb My Ag Nv	–
1,884.7	Bk. Nova Scot. ‖	654p	76c	5.3	28.9	Ja Ap Ju Oc	–
4,590.2	BCE ‖	17	$2.44	6.5	6.6	Ap Jy Oc Ja	–
242.7	♥Bow Valley‖	586p	♦40c	3.1	15.12	May Nov.	–
789.2	♥Brascan‖	11⅛	88c	3.4	28.10	Ja Ap Jy Oc	–
42.8	♥Breakwater Res.	191p	10c	2.4	–	–	–
1,780.2	Can. Imp Bank‖	11⅛	$1.16	4.6	29.6	Fe My Au No	–

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
461.5	Beazer 10p	167	6.35	5.1	14.11	Jan May	1788
3,570.7	Beecham	471	†14.3	4.0	28.11	Feb. Aug	1792
29.4	Benlox 10p	54	g0.85	2.1	14.11	Dec July	1803
10.5	Benson Group 10p	47	0.7	2.0	3.10	January	1805
39.3	Bespak 10p	290	5.0	2.3	1.8	Feb Oct	1818
14.5	Bestwood 5p	50	20.5	1.3	14.11	April	1819
177.7	Bibby (J.) 50p	157	8.5	7.2	28.11	July Jan	1823
4.21	♦Bilston & B'sen10p	100	4.2	5.6	3.10	May Oct	1829

INDUSTRIALS (Miscel.)—Contd.

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
125.5	Parkfield Group 2p	261	7.0	3.6	1.8	Feb Oct	3602
3.20	♦Pavion Intl	3½	–	–	–	–	3613
3.27	Do 11pc CnLn '94-02	£35½	Q11%	31.0	8.2	Aug. Feb	3612
198.1	Pentland 10p	71	†0.64	1.2	19.9	July Oct.	3631
54.2	Pergamon AGB 2½p	65	4.0	8.2	17.10	July Dec	2909
20.2	Do. 25¾c Cv Ln 1998	67	Q6.3%	9.4	24.11	Dec June	4996
122.0	Photo-Me 5p	415	3.0	1.0	17.10	May Dec.	3656
1,457.3	Pilkington 50p	198	†8.4	5.7	12.12	Feb Aug	3662

INSURANCES

LEISURE

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

Market Cap £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
12.5	Nat'l Media Coms. 5p	16½	–	–	9'85	–	2483
14.9	Juliana's Hldgs 2p	78	†2.85	5.4	31.10	Nov June	5066
38.7	Kunick 10p	39½	†1.0	3.4	23.5	Mar. Jul.	4696
135.7	LWT 5p	155	5.7	4.9	28.11	Jan April	3233
161.9	Ladl.Leisure 10p	382	†8.0	2.8	4.7	October	3134
139.7	Leisure Inv 10p	92	1.75	2.6	7.3	January	3151
33.6	Leisuretime Int 10p	83	–	–	13.9	Jan Jul	3152
54.8	Marina Dev. 50p	367	m2.0	0.7	19.9	November	3286
483.9	Mecca Leisure 10p	156	4.5	3.9	18.7	Mar Sept	5326
8.52	Medminster 10p	111	3.67	4.4	28.11	Apr. Dec.	3329
87.0	Midsummer Leis 10p	172	2.8	2.2	23.5	February	3386
28.3	Miss World 10p	435	8.0	2.5	31.10	Oct May	3394
10.1	Multicare Visions 50p	37	–	–	9'86	–	4598
22.2	Noble Raredon 5p	147	h1.33	1.2	–	–	2713
41.7	Owners Abroad 3p	28	0.26	3.5	–	–	–
10.9	Pavilion Leisure 10p	118	–	–	1'84	–	–
74.1	Owners Abroad 3p	86	g2.1	3.3	21.3	May	3574
1.32	Pavilion Leisure 10p	110	–	–	–	–	3611
13.3	P'dilly Radio NV 5p	166	3.25	2.6	15.8	Apr Sept	3657
49.9	Pickwick	224	†2.6	1.5	19.9	Sept Mar	3658
503.8	Pleasurama 5p	232	†16.0	3.4	5.9	Oct. Jul.	3676
254.7	Do. 7pcCvCnvRedPf	279	7%	4.3	8.2	Sept. Mar.	3677
42.5	Prestwich	128	1.25	1.4	14.11	Apr Nov	3716
5.58	Prism Leisure 10p	142	4.46	4.2	1.8	Feb Sept	3724
61.5	Quadrant Group 10p	216	F3.6	2.2	17.10	Jan July	3737
7.02	Radio City 'A' NV	319	6.0	–	12.12	–	3755
13.9	Radio Clyde	298	5.75	3.2	28.11	Jan July	3756
56.7	Really Useful Grp 5p	512	15.0	3.9	3.10	May Dec	3798
41.6	Saga Group 20p	231	14.6	2.7	1.8	Apr. Nov.	3903
5.67	Scott. Ice Rink 2½p	840	–	–	–	April	5075
41.2	Scott. TV 10p	370	‡17.0	–	31.10	Dec May	9965
–	Select TV 10p	12½	–	–	–	–	3991
5.09	Spectrum 5p	29	–	–	–	–	4072
42.7	Stanley Leisure	255	3.6	1.9	1.8	Feb. Sept.	4097
5.69	Sunset & Vine 5p	123	12.4	2.6	–	–	5303
13.6	TSW 5p	65	3.15	6.5	17.10	May Nov	4322
91.4	TV-am 5p	139	14.5	4.3	3.10	Dec. May	4162
185.6	TVS Entertain 10p	293	†12.5	5.8	22.2	Mar Aug	4186
48.4	Do. 7.4pc Prf	97	7.4%	10.2	28.11	–	5184
172.8	Thames TV	368	†13.2	4.9	28.11	Jan. July	4204
11.0	Tottenham Hotspur	188	5.0	6.2	14.11	Jan June	4260
16.8	Trilion 10p	99	g1.1	2.6	16.6	Feb Aug	4306
71.2	Tyne Tees 50p	349	†13.75	5.3	19.9	Dec June	4331
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

Australians

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Yen to rise as Japan outperforms the rest

By Colin Millham

WORLD ECONOMIC growth will slow down over the next year or so, but the Japanese economy will remain the most buoyant, and this is expected to lead to a further appreciation of the yen against the dollar.

West Germany is unlikely to match Japanese economic performance during this period, and it must therefore be questioned how long the D-Mark will hold its present value against the Japanese currency?

The D-Mark slipped from around Y77.50 at the beginning of this year to 70.50 by mid-October, and there has been very little change since.

If Japan's performance is as strong as suggested in Nomura Research Institute's latest financial outlook the yen seems set to strengthen against all major currencies, including the D-Mark.

The problem is that the view from Tokyo tends to be different from that in Washington and Europe.

Total growth among the members of the Organisation for Economic Co-operation and Development will slow over the next two years, amid some danger that the world could be sliding into recession.

The pace of economic activity among OECD nations will slow from 4.4 p.c. in 1988 to 2.2 p.c. in 1990, but recession will be avoided providing the US effects budget deficit reductions in the 1990 fiscal year, according to National Westminster Bank.

NatWest forecasts that strong US growth of around 3.9 p.c. this year will slow to 2.0 p.c. next year and to 1.7 p.c. in 1990, as the incoming Bush Administration pursues a tighter budgetary policy. Over the same period UK growth will slow from 4.2 p.c. to 2.5 p.c., and then to 2.3 p.c.

Japanese growth will also slow, but Japan will remain the most successful economy, expanding by 3.0 p.c. in 1990, compared with a forecast of 2.2 p.c. for West Germany. This forecast for Japan may be rather conservative however.

Kleinwort Benson's annual review of Japan says the issues are not whether growth will slow, but how much it will slow, and not whether inflation will rise, but to what level it will rise. However in spite of this generally deteriorating environment there are still many reasons to be optimistic.

A growth rate of 3.7 p.c. is forecast by Kleinwort for the next fiscal year beginning in April, with inflation rising from 1.2 p.c. to 1.8 p.c., although a new indirect tax is expected to add another 1 p.c. to the latter figure.

The continuing ability of the Japanese economy to outperform the rest of the world will be reflected in foreign exchange rates, according to the general opinion in the US and Europe, but this does not appear to be considered inevitable in Japan.

Sumitomo Bank in Osaka has forecast that the average exchange rate for the dollar in the 1989 fiscal year, will be Y125. This is very little different from the present rate.

Sumitomo expects growth to be 3.8 p.c., compared with 4.8 p.c. during the present fiscal year.

Nomura Research Institute in London takes a different view, and believes the dollar will average Y120 during the fiscal year, but Nomura also believes growth will remain very strong at around 4.6 p.c. during this period.

National Westminster suggests the dollar will decline during 1989 to Y110 and will remain around that level in 1990.

A significant improvement in the US budget and trade deficits from 1991 onwards will produce moderate but sustained dollar gains from 1991 onwards, bringing the dollar up to Y119 by the end of 1994.

Kleinwort sums up the Japanese economy by saying the situation is likely to change from excellent to good over the coming year, but it will continue to outperform the rest of the world.

£ IN NEW YORK

Dec.16	Close	Previous Close
£ Spot	1.8180-1.8190	1.8180-1.8190
1 month	0.47-0.46pm	0.50-0.48pm
3 months	1.52-1.50pm	1.57-1.54pm
12 months	5.10-5.03pm	5.15-5.05pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Dec.16	Previous
8.30	am	77.7	77.7
9.00	am	77.9	77.7
10.00	am	77.8	77.7
11.00	am	77.8	77.7
Noon		77.8	77.7
1.00	pm	77.7	77.7
2.00	pm	77.8	77.7
3.00	pm	77.8	77.8
4.00	pm	77.7	77.9

CURRENCY RATES

Dec.16	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.744113	0.649616
U.S Dollar	6.50	1.36262	1.18100
Canadian $	8.75	1.64264	1.42547
Austrian Sch.	4	16.6458	14.6267
Belgian Franc	7.75	49.6607	43.5583
Danish Krone	7½	9.15136	8.03022
Deutsche Mark	3½	2.36551	2.07679
Neth Guilder	4.5	2.67278	2.34405
French Franc	9½	8.09533	7.09959
Italian Lira	12½	1753.64	1532.05
Japanese Yen	2½	167.602	146.858
Norway Krone	8	8.80253	7.70604
Spanish Peseta	-	153.886	134.916
Swedish Krona	8½	8.22205	7.20175
Swiss Franc	3.5	1.99488	1.75084
Greek Drach.	20½	197.171	172.910
Irish Punt	-	0.885336	0.776617

*All SDR rates are for Dec.15

CURRENCY MOVEMENTS

Dec.16	Bank of England Index	Morgan** Guaranty Changes %
Sterling	77.7	-14.6
U.S Dollar	94.1	-13.8
Canadian Dollar	83.9	-2.8
Austrian Schilling	135.7	+10.1
Belgian Franc	98.6	-5.7
Danish Krone	89.4	-0.1
Deutsche Mark	145.6	+21.7
Swiss Franc	167.9	+20.1
Guilder	133.9	+13.8
French Franc	69.1	-15.3
Lira	45.8	-20.2
Yen	250.6	+86.9

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100**Rates are for Dec.15.

OTHER CURRENCIES

Dec.16	£	$
Argentina	27.8670-28.0280	15.3200-15.4000
Australia	2.1355-2.1415	1.1785-1.1795
Brazil	1210.40-1217.50	665.40-668.95
Finland	7.5040-7.5285	4.1400-4.1420
Greece	263.55-268.05	144.20-146.85
Hong Kong	14.1845-14.2015	7.8070-7.8090
Iran	123.50*	67.40*
Korea(Sth)	1240.15-1250.15	681.90-687.50
Kuwait	0.50970-0.51020	0.28030-0.28040
Luxembourg	66.80-66.90	36.85-36.95
Malaysia	4.8850-4.8980	2.6900-2.6930
Mexico	4148.45-4159.85	2280.00-2285.00
N. Zealand	2.9000-2.9100	1.6000-1.6050
Saudi Ar.	6.8200-6.8255	3.7505-3.7515
Singapore	3.5320-3.5410	1.9445-1.9465
S. Af (Cm)	4.2835-4.3055	2.3650-2.3700
S. Af (Fn)	6.8590-6.9920	3.7735-3.8465
Taiwan	51.15-51.40	28.05-28.15
U.A.E.	6.6780-6.6840	3.6725-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Dec.16	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12¼-12⅛	12⅝-12⅜	13¼-12⅞	13⅛-13⅛	13⅛-13⅛	13-12⅞
US Dollar	8⅞-8⅝	8⅞-8⅝	9⅜-9⅛	9⅝-9½	9⅝-9½	9⅝-9½
Can. Dollar	9¾-9½	10⅛-9⅞	10⅝-10⅜	11⅛-11	11⅛-11⅛	11⅛-11¼
D. Guilder	5⅛-5⅛	5⅝-5⅛	5⅝-5⅝	5⅝-5⅝	5⅝-5⅝	5⅝-5⅝
Sw. Franc	4⅝-4⅛	4⅝-4⅛	5⅛-5⅛	5⅛-5⅛	5⅛-5⅝	5⅞-4⅞
Deutschmark	5⅛-5⅛	5⅛-5⅛	5⅝-5⅝	5⅝-5⅝	5⅝-5⅝	5⅝-5⅝
Fr. Franc	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅝-8⅝	8⅞-8⅛
Italian Lire	14-12	12½-10½	12½-12¼	12½-12	12½-12¼	12½-12¼
B. Fr. (Fin)	6⅝-6⅛	6⅝-6⅛	7⅛-7⅛	7⅛-7⅛	7⅝-7⅝	7⅝-7⅛
B. Fr. (Con.)	7-6⅞	7⅛-7	7⅝-7⅛	7⅝-7⅛	7⅝-7⅛	8-7⅞
Yen	4⅛-4⅛	4⅛-4⅛	4⅛-4⅛	4⅛-4⅛	4⅛-4⅛	4⅝-4⅛
D. Krone	7⅝-7⅛	8-7⅞	8-7⅞	8-7⅞	8⅛-7⅞	8⅛-8⅛
Asian $Sing	8⅛-8⅛	8⅛-8⅛	9⅛-9⅛	9⅛-9½	9⅝-9½	9⅝-9⅛

Long term Eurodollars: two years 9⅞-9¾ per cent; three years 9⅞-9¾ per cent; four years 9⅞-9⅞ per cent; five years 9⅞-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.16	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.811	3.198	225.5	10.91	2.698	3.610	2363	2.185	66.85
$	0.552	1	1.766	124.5	6.024	1.490	1.993	1305	1.207	36.91
DM	0.313	0.566	1	70.51	3.412	0.844	1.129	738.9	0.683	20.90
YEN	4.435	8.031	14.18	1000.	48.38	11.96	16.01	10479	9.690	296.5
F Fr.	0.917	1.660	2.931	206.7	10.	2.473	3.309	2166	2.003	61.27
S Fr.	0.371	0.671	1.185	83.58	4.044	1	1.338	875.8	0.810	24.78
H Fl.	0.277	0.502	0.886	62.47	3.022	0.747	1	654.6	0.605	18.52
Lira	0.423	0.766	1.353	95.43	4.617	1.142	1.528	1000.	0.925	28.29
C $	0.458	0.829	1.464	103.2	4.993	1.235	1.652	1081	1	30.59
B Fr.	1.496	2.709	4.784	337.3	16.32	4.036	5.400	3535	3.269	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8105-1.8275	1.8105-1.8115	0.49-0.46cpm	3.15	1.53-1.48pm	3.32
Canada	2.1785-2.2040	2.1840-2.1850	0.45-0.37cpm	2.36	1.02-0.88pm	1.82
Netherlands	3.59¾-3.61½	3.60½-3.61½	2¼-2¼cpm	7.27	6¼-6¼pm	6.86
Belgium	66.60-67.15	66.80-66.90	34-28cpm	5.56	94-84pm	5.33
Denmark	12.29-12.36½	12.33¼-12.34¼	5¾-4¾orepm	4.98	15¼-14¼pm	4.78
Ireland	1.1900-1.1960	1.1930-1.1940	0.55-0.50cpm	5.28	1.50-1.40pm	4.86
W. Germany	3.18½-3.20	3.19½-3.20	2-1⅞pfpm	7.27	5¾-5½pm	6.96
Portugal	262.60-266.05	264.20-265.20	1-41cdis	-0.95	47-143dis	-1.44
Spain	206.65-207.45	206.05-206.35	44-33cpm	2.24	75-62pm	1.33
Italy	2354¼-2363¼	2362¼-2363¼	2-parlirepm	0.51	5-2pm	0.59
Norway	11.80½-11.89¼	11.83-11.84	1⅝-1¼orepm	1.39	4-3¼pm	1.25
France	10.89¼-10.93½	10.90¼-10.91¼	4-3¼cpm	4.26	11¼-11pm	4.13
Sweden	11.05-11.09¾	11.05-11.06	3-2¼orepm	3.05	7¼-6¼pm	2.51
Japan	225-226½	225-226	1¾-1½ypm	8.31	4¾-4½pm	8.31
Austria	22.45-22.56	22.45-22.49	14¼-13¼gropm	7.38	41-36¼pm	6.93
Switzerland	2.68½-2.70¼	2.69¼-2.70¼	1¾-1⅝cpm	7.51	5-4⅞pm	7.32

Belgian rate is convertible francs. Financial franc 67.25-67.35. Six-month forward dollar 3.01-2.96cpm 12 months 5.15-5.05cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8105-1.8275	1.8105-1.8115	0.49-0.46cpm	3.15	1.53-1.48pm	3.32
Ireland†	1.5170-1.5300	1.5170-1.5180	0.25-0.30cdis	-2.17	0.60-0.70dis	-1.71
Canada	1.2000-1.2080	1.2040-1.2050	0.08-0.10cdis	-0.90	0.46-0.50dis	-1.59
Netherlands	1.9690-1.9935	1.9925-1.9935	0.69-0.66cpm	4.11	1.80-1.76pm	3.61
Belgium	36.60-36.95	36.85-36.95	8.30-6.30cpm	2.38	20.50-16.50pm	2.01
Denmark	6.74¼-6.82	6.81-6.81½	1.40-0.90orepm	2.03	2.85-2.35pm	1.53
W. Germany	1.7445-1.7665	1.7655-1.7665	0.59-0.56cpm	3.95	1.65-1.60pm	3.72
Portugal	145¼-147	146¼-147	43-63cdis	-4.36	150-200dis	-4.80
Spain	113.10-114.10	113.95-114.05	6-16cdis	-1.16	48-58dis	-1.86
Italy	1290¼-1305¼	1304¼-1305¼	2.50-3.00liredis	-2.55	8.30-9.30dis	-2.72
Norway	6.49-6.53¼	6.53¼-6.53¾	0.80-1.00oredis	-1.66	3.20-3.50dis	-2.06
France	5.96¼-6.03	6.02-6.02½	0.60-0.50cpm	1.10	1.40-1.20pm	0.87
Sweden	6.06¼-6.11	6.10¼-6.10¾	par-0.20oredis	-0.20	1.05-1.35dis	-0.46
Japan	123.75-124.55	124.45-124.55	0.57-0.54ypm	5.37	1.56-1.53pm	4.93
Austria	12.29¼-12.36¼	12.36¼-12.37¼	4.75-4.35gropm	4.43	12.75-11.25pm	3.90
Switzerland	1.4700-1.4895	1.4885-1.4895	0.54-0.50cpm	4.22	1.55-1.50pm	4.12

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.10-37.20.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 16 1988 US Dollar Index	% Change Since Dec.31 87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 15 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988 High	1988 Low	Year ago (approx)
Australia (90)	139.69	+33.4	114.35	109.54	4.90	143.06	116.00	111.18	152.21	91.16	96.34
Austria (18)	96.61	-4.1	79.09	88.25	2.77	97.44	79.01	88.30	100.00	83.72	96.62
Belgium (63)	132.44	+28.4	108.42	121.33	4.17	133.82	108.50	121.28	139.89	99.14	95.54
Canada (125)	120.76	+9.3	98.86	105.32	3.40	120.08	97.36	104.82	128.91	107.06	109.82
Denmark (39)	153.47	+32.9	125.64	142.20	2.13	154.38	125.17	141.67	159.19	111.42	113.53
Finland (26)	131.11	+14.0	107.33	113.94	1.47	133.10	107.92	115.00	139.83	106.78	–
France (130)	108.94	+26.5	89.18	102.91	3.16	109.55	88.82	102.72	112.34	72.77	84.77
West Germany (102)	86.35	+11.7	70.69	79.28	2.36	86.30	69.98	78.43	88.26	67.78	76.15
Hong Kong (46)	108.94	+22.3	89.18	109.20	4.73	108.90	88.30	109.15	111.86	84.90	84.38
Ireland (18)	132.14	+26.2	108.18	122.70	4.11	132.20	107.19	121.35	144.25	104.60	101.85
Italy (98)	82.96	+6.7	67.91	80.85	2.50	83.34	67.58	80.48	86.73	62.99	78.19
Japan (456)	185.36	+31.1	151.75	145.88	0.51	188.67	152.98	147.11	190.93	133.61	143.94
Malaysia (36)	140.85	+26.1	115.30	146.00	2.90	141.68	114.88	146.68	154.17	107.83	104.68
Mexico (13)	166.65	+58.0	136.43	415.89	1.23	169.34	137.31	422.60	182.24	90.07	105.49
Netherland (38)	110.18	+9.8	90.20	100.22	4.92	110.20	89.36	99.29	111.00	95.23	95.76
New Zealand (25)	64.61	–15.2	52.89	54.98	7.18	64.32	52.15	54.88	84.05	63.32	76.01
Norway (25)	131.87	+29.6	107.96	116.97	2.48	133.44	108.19	117.41	133.70	98.55	96.43
Singapore (26)	119.34	+22.6	97.70	107.00	2.54	119.88	97.20	107.15	135.89	97.99	90.74
South Africa (60)	118.16	–11.5	96.73	98.39	4.69	120.42	97.64	98.39	139.07	98.26	133.80
Spain (42)	148.28	+11.8	121.39	128.06	3.18	149.09	120.89	128.25	164.47	130.73	129.95
Sweden (35)	144.19	+45.5	118.04	130.31	2.19	143.46	116.32	128.59	144.36	96.92	98.30
Switzerland (57)	76.29	-8.6	62.46	70.43	2.41	77.12	62.53	70.40	86.75	74.13	80.09
United Kingdom (316)	133.61	+0.8	109.38	109.38	4.91	134.04	108.68	108.68	141.51	120.66	128.56
USA (576)	112.44	+11.8	92.05	112.44	3.66	111.75	90.61	111.75	115.55	99.19	101.30
Europe (1007)	112.35	+7.5	91.98	98.23	3.82	112.75	91.42	97.66	116.61	97.01	101.86
Pacific Basin (679)	180.36	+30.8	147.65	142.78	0.74	183.53	148.81	143.98	185.81	130.81	139.82
Euro-Pacific (1686)	153.14	+22.9	125.37	125.11	1.66	155.19	125.83	125.63	158.08	120.36	124.67
North America (701)	112.87	+11.7	92.40	112.02	3.65	112.18	90.96	111.34	116.07	99.78	101.75
Europe Ex. UK (691)	98.89	+13.5	80.96	91.52	2.97	99.26	80.49	91.04	101.29	80.27	85.29
Pacific Ex. Japan (223)	120.59	+25.3	98.72	103.69	4.78	122.24	99.12	104.57	128.27	87.51	89.97
World Ex. US (1884)	151.67	+22.1	124.17	124.31	1.73	153.63	124.57	124.80	156.39	120.26	124.25
World Ex. UK (2144)	136.88	+20.8	112.06	121.39	2.07	137.90	111.81	121.58	139.61	111.77	114.07
World Ex. So. Af. (2400)	136.69	+18.9	111.90	120.39	2.31	137.65	111.61	120.49	139.52	113.26	115.23
World Ex. Japan (2004)	113.10	+10.4	92.59	106.82	3.77	112.93	91.57	106.27	115.54	100.00	101.66
The World Index (2460)	136.57	+18.7	111.80	120.24	2.32	137.54	111.52	120.34	139.43	113.37	115.35

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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CONSTITUENT CHANGES:Deletion:Kraft (US).
South African market closed December 16.

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 89 Vol	Last	May 89 Vol	Last	Aug. 89 Vol	Last	Stock
GOLD C	$400	111	23	–	–	–	–	$412.50
GOLD C	$440	85	3	3	10.50	300	17.50	$412.50
GOLD C	$460	435	1.40	3	5	3	10.50	$412.50
GOLD C	$480	125	0.80	20	2.80	[illegible]	[illegible]	$412.50
[illegible]								

A=Ask B=Bid C=Call P=Put

TOTAL VOLUME IN CONTRACTS : 48,809

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1988 High	Low	Stock	Closing Price	+or-	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
58	F.P.	-	65	58	Apollo Metals 10p	64		R2.0	2.9	4.2	11.0
§20	F.P.	16/12	29	21	Apollo Watch Prods. 3p	29		b0.45	3.0	2.1	19.5
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	Low	Stock	Closing Price £	+or-
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	Low	Stock	Closing Price p	+or-
[illegible]							

MONEY MARKETS

Slight improvement in UK rates picture

THE PROSPECTS of avoiding another rise in British interest rates improved slightly last week, despite the general upward pressure on world rates. The fact that the pound held up well suggests that London's interest rate advantage remains big enough at present.

Sterling weakened against the dollar, but so did other major currencies. The dollar's strength was largely based on speculation that rising European rates would force a rise in the US discount rate.

The pound fell below DM3.20 against the D-Mark. It performed reasonably well, however, and actually moved up on Thursday, the day that the Bundesbank raised its Lombard rate.

Traders looking to take profits in sterling at around DM3.2450 had already been disappointed the previous week. At one time sterling fell through a support point of DM3.18, and was not helped by the upward trend in Continental rates, but the D-Mark was at its strongest before the Bundesbank council sanctioned the Lombard move.

A higher Lombard rate had been widely forecast, and Barclays Bank said it was a classic case of buy on the rumour and sell on the fact.

UK clearing bank base lending rate 13 per cent from November 25

Although the threat of higher UK bank base rates remains, the balance of news last week suggested it is now less likely.

Producer prices on Monday and retail prices on Friday contained no surprises, while figures on retail sales on Monday and average earnings on Thursday were mildly encouraging.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	10½	One month	7.34	Three year	9.19
Broker loan rate	9¾-¼	Two month	7.99	Four year	9.21
Fed.funds	9⅜-8	Three month	8.44	Five year	9.20
Fed.funds at intervention	8¾	Six month	8.68	Seven year	9.21
		One year	9.14	10-year	9.17
		Two year	9.19	30-year	9.05

Dec.16	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.95-5.05	5.50-5.70	5.50-5.70	5.50-5.70	5.50-5.70	5.00
[illegible]						

LONDON MONEY RATES

Dec.16	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]					

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.16) 3 months US dollars / 6 months US Dollars

bid 9⅝	offer 9¾	bid 9¾	offer 9⅞

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec.16	Dec.9		Dec.16	Dec.9
[illegible]					

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Dec.16	change	NEW YORK	Dec.16	change
[illegible]					

BASE LENDING RATES

	%		%		%
[illegible]					

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.22% Sanwise 8.47%. Top Tier-£10,000+ at 3 month notice 11.72% & Mortgage base rate. § Demand deposit 8%. Mortgage 12.375% - 12.75%

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | JAPAN | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | NETHERLANDS | NORWAY | SPAIN | ITALY (continued) | SWEDEN | SWITZERLAND | SOUTH AFRICA | AUSTRALIA | HONG KONG | SINGAPORE

CANADA

TORONTO

Closing prices December 16

MONTREAL

Closing prices December 16

Total Sales 3,803,812 shares.

INDICES

NEW YORK DOW JONES

	Dec 16	Dec 15	Dec 14	Dec 13	1988 High	1988 Low	Since compilation High	Since compilation Low
ϕIndustrials	2150.71	2133.00	2134.25	2143.49	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.48	88.59	89.02	89.27	91.25 (3/3)	86.12 (4/1)	–	–
Transport	960.95	954.76	948.88	946.17	960.95 (16/12)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	184.51	183.38	184.45	184.98	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

ϕDay's High 2155.00 (2146.87) Low 2131.25 (2120.91)

STANDARD AND POOR'S	Dec 16	Dec 15	Dec 14	Dec 13	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	276.29	274.28	275.31	276.31	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	318.70	316.24	317.41	318.42	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	24.66	24.62	24.72	25.01	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	155.16	154.17	154.72	155.24	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	297.37	294.31	295.00	295.82	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	375.80	373.01	372.77	372.98	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec 9	Dec 2	Nov 25	year ago (approx.)
Dow Industrial Div. Yield	3.71	79	3.82	3.69

	Dec 14	Dec 7	Nov 30	year ago (approx.)
S & P Industrial div. yield	3.22	3.15	3.21	3.31
S & P Indl. P/E ratio	12.73	12.80	12.64	16.39

TRADING ACTIVITY †Volume

Millions	Dec 16	Dec 15	Dec 14
New York	196.480	136.820	132.350
Amex	12.887	10.450	9.034
OTC	133.140	111.616	117.740

NEW YORK	Dec 16	Dec 15	Dec 14
Issues Traded	1,952	1,938	1,943
Rises	1,008	537	633
Falls	448	867	755
Unchanged	496	534	555
New Highs	30	13	19
New Lows	28	46	41

CANADA

TORONTO	Dec 16	Dec 15	Dec 14	Dec 13	1988 High	1988 Low
Metals & Minerals	3066.0	3019.6	2979.5	2980.9	3226.5 (5/7)	2238.7 (8/2)
Composite	3303.0	3284.0	3289.9	3295.8	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1655.70	1644.03	1638.14	1645.58	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Inco Ltd	6,550,100	24⅛	+ 1⅞
Tiger International	3,585,500	19⅞	+ 2½
Exxon	3,131,900	45⅛	+ ½
AT&T	2,556,300	29½	+ ⅛
RJR Nabisco	2,180,600	89	– ⅛
General Electric	2,150,700	45	+ ¼
IBM	2,006,100	121¼	+ ¼
Interco WI	1,743,100	3⅛	+ ¼
Ford Motor	1,606,800	50⅛	– ¼
Niag Mohawk	1,589,700	13⅛	– ¼

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 16	Dec. 15	Dec. 14	Dec. 13	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1447.3	1463.3	1457.7	1457.5	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	653.8	665.0	662.9	665.0	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	217.9	218.3	219.3	219.1	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5406.6	5404.0	5407.2	5405.7	5414.50 (12/12)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	255.42	254.49	254.29	255.23	261.07 (6/12)	180.68 (4/1)
FINLAND						
Unitas General (1975)	727.0	729.2	730.6	733.0	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	393.4	393.0	394.7	395.8	397.2 (9/11)	251.3 (29/1)
Ind. Tendance (31/12/87)	150.5	150.2	151.6	152.2	153.4 (4/11)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	536.57	530.88	535.58	533.5	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1610.6	1592.1	1607.7	1600.3	1641.6 (27/10)	1207.9 (29/1)
DAX (30/12/87)	1296.31	1285.33	1286.61	1290.63	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2629.16	2627.22	2642.08	2651.92	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	573.41	570.37	569.27	572.31	593.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	29536.71	29705.75	29754.73	29597.80	30050.82 (7/12)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2279.36	2297.36	2301.68	2292.24	2314.20 (7/12)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	280.2	278.1	277.1	278.6	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	246.3	245.7	245.0	246.1	252.6 (31/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	441.44	440.44	440.35	441.14	441.44 (16/12)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1002.55	1003.92	1001.30	1002.51	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(c)	1319.0	1319.0	1336.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	(c)	1905.0	1902.0	1901.0	1906.0 (12/12)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	277.50	277.23	277.43	277.70	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3378.5	3351.3	3345.4	3344.3	3351.3 (15/12)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	582.4	583.1	588.0	590.3	591.6 (12/12)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	487.7	489.9	488.2	493.8 (6/12)	401.0 (21/1)

**Saturday Dec. 17: Japan Nikkei (c) and TSE (c)

‡ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 16 December 1988

	Stocks Traded	Closing Prices	Change on day
Mitsui Eng & Shipbldg	40.4m	795	-28
Nippon Steel	43.1m	894	-26
Japan Line	35.8m	610	+30
NKK	31.4m	939	-38
Nisshin Steel	25.3m	1,180	-80
Mitsubishi Heavy Ind	23.5m	1,000	-30
Sumitomo Metal	17.6m	740	-29
Kawasaki Steel	17.0m	1,000	-60
Kobe Steel	18.2m	720	-27
Hitachi Zosen	11.5m	821	-26

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. ♦ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

4pm prices December 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	15	AAR	.44	1.8	17	238	24⅛	23⅞	24⅛	+ ½
10⅛	8¾	ACM n	1.01	12.		142	9	8¾	8¾	– ⅛
12⅛	10⅛	ACMIn	1.26a	12.		870	10½	10⅛	10⅛	– ⅛
10⅛	9⅞	ACM M	n.08e	.8		172	10	9⅞	10	+ ⅛
12⅛	10⅛	ACMSc	n1.26	12.		1061	10⅛	10⅛	10⅛	– ⅛
10⅛	8⅝	ACMSp	n1.01a	12.		789	8⅝	d 8½	8½	– ⅛
5⅞	2⅝	AMCA	.12e	3.7		22	3⅞	3¼	3¼	
6⅛	3⅞	AM Intl				335	4⅞	4⅛	4⅛	– ⅛
23¼	18⅛	AM Int pf	2	9.2		25	21⅝	21⅛	21⅝	
55	29¾	AMR			9	2349	53½	53	53⅞	
27	25	ANR pf	2.67	11.		5	25⅛	25⅛	25⅛	
24⅛	20⅞	ANR pf	2.12	9.1		4	23⅞	23⅞	23⅞	
9½	5¾	ARX			10	945	6¼	5⅞	6	+ ⅛
54½	35¼	ASA	3a	7.8		323	38½	37⅞	38½	+ ¾
20⅛	12⅞	AVX	.12e	.7	12	249	17	16⅝	16⅞	+ ⅛
52⅞	42⅞	AbtLab	1.20	2.6	16	5459	46⅛	46⅛	46⅞	+ ½
21¾	15⅞	Abitibi g				163	16	15½	15⅞	– ⅛
13⅞	7½	AcmeC	.40	4.6		509	8⅞	8⅛	8⅞	+ ⅝
8⅞	5⅞	AcmeE	.32b	5.2	27	8	6⅛	6⅛	6⅛	– ⅛
29½	15¼	Acuson			23	60	24⅞	24⅝	24⅞	+ ⅛
17	14½	AdaEx	1.82e	12.		217	14⅞	14⅝	14⅞	
18⅞	7⅛	AMD			16	11895	8⅞	8	8⅞	+ ⅜
43½	28¼	AMD pf	3	10.		1098	29⅝	29⅛	29⅛	– ⅛
8½	4⅛	Adobe				145	6⅞	6⅝	6⅞	+ ⅛
18½	16¼	Adob pf	1.84	11		9	17⅞	17⅞	17⅞	
21¼	19⅛	Adob pf	2.40	11.		3	20⅞	20⅞	20⅞	+ ⅛
9¼	5⅞	Advest	.12	1.7	22	244	7¼	7⅛	7⅛	
52½	38½	AetnLf	2.76	6.0	8	2698	46⅝	46	46½	– ⅛
98	90¼	AetL pfC	6.79e	7.1		103	95½	94	95½	+ 2
34⅛	21⅞	AhPb s	.22	.7		1002	34	32⅝	33⅝	+ ⅞

Continued on Page 31

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10¼	5¼	Ramad				4710	9¼	8⅞	9	+ ⅛
6½	4	RangrO			51	373	5¼	5	5½	
54¼	32¾	Raycm	.32	.9	10	1404	34⅞	33⅞	34⅛	
12½	8⅞	RJamFn	.20	2.0	10	7	10⅛	10	10	− ⅛
21⅞	15	Rayonr	2.80	14.	6	25	19	18¾	18⅞	
8½	2¾	Raytch	.05e	1.8		5	2¾	2⅝	2⅝	− ⅛
73⅞	61	Raythn	2	2.9	10	2055	71	69½	70⅛	− ¾
2½	½	ReadBt				821	11-16	⅝	11-16	+ 1-16
5⅝	1⅛	RdBat pf				31	1⅛	1⅛	1⅛	
3¾	1⅝	RdBt pfA				10	1⅛	1⅛	1⅛	
19	15¼	REIT	1.36	9.0	15	117	15⅝	15⅛	15⅛	− ⅛
11⅞	5½	RecnEq				874	11⅜	11½	11½	
10⅞	5⅞	Redmn	.36	3.6		10	9⅞	9⅞	9⅞	
18⅞	9⅛	Reebok	.30	2.8	7	5268	10⅞	9⅞	10⅛	+ ⅛
12⅞	9½	Reece	.15e	1.3	17	20	12	11⅞	12	+ ⅛
1	5-32	Regal				732	7-32	3-16	3-16	
8¼	5	RegIFn	.24e	4.1		365	6	5⅞	5⅞	− ⅛
16⅞	13¼	ReichTg	1.78	13.	8	56	14⅛	14	14	− ⅛
7½	4½	RelGrp	.32	6.2	7	1074	5⅛	4⅞	5⅛	+ ⅛
6⅞	4¼	RepGyp	.20	4.6	22	117	4½	4¼	4⅜	− ⅛
48⅛	38½	RepNY	1.20	2.9	10	180	41½	41⅜	41⅜	− ⅛
53	43¼	RNY	pf3.78e	8.6		154	43¾	43¼	43¼	− ¼
23¼	14½	Rxene	n.15e	.9		545	16⅞	16¼	16⅞	+ 1½
58	34	ReylMt	1	2.0	7	1789	50⅞	50	50⅞	− ⅛
40⅞	29½	RiteAid	.74	2.4	13	1902	30¾	30¼	30⅝	+ ⅜
1	⅛	RvrOak				236	13-32	⅜	⅜	
16½	6¾	Robtsn				128	8⅞	8¾	8¾	− ⅛
27	12¼	vjRobins			33	225	24⅞	24	24⅞	
18¼	14⅞	RochG	1.60	8.7	11	127	17¼	17	17¼	+ ⅛
49⅛	39¼	RochTl	2.72	5.5	13	54	49¼	49⅛	49⅛	− ⅛
16	8⅞	Rckwy	.36	2.5	17	58	14¾	14⅝	14½	− ⅛
20⅞	16⅞	RckCtr	1.84	9.6	14	250	19½	19¼	19¼	
23⅞	16⅛	Rockwl	.72	3.4	7	5428	21	20¾	20⅞	
9⅝	4⅞	RodRen	.14	1.9		47	7⅛	7⅛	7⅛	
37½	26	RoHaas	1.12	3.3	10	1030	33⅞	33⅜	33⅞	+ ½
33½	15½	Rohr			14	215	26⅞	25⅞	26½	− ⅛
19⅝	9	RollnE	s .06	.6	19	3026	10⅞	10	10⅜	+ ⅜
19⅛	14⅞	Rollins	.52	3.1	18	228	17	16¾	17	+ ⅜
45¼	22	Rorer	s .80	1.9	24	2727	43¼	42¼	42⅛	− ⅛
8⅝	4¼	Rowan				7010	5⅞	5⅝	5⅞	+ ⅛
124¼	103½	RoylD	7.24e	6.2	7	5097	118¼	115⅞	116	+ 1½

— X-Y-Z —

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
39⅝	19¼	XTRA	.72	2.0	14	149	36¾	36⅛	36⅛	+ ⅜
29¾	19⅞	XTRA pf1.94		7.0		29	27⅞	27⅞	27⅞	
59⅞	22⅞	Yorkin			15	15	53¼	53½	53⅛	
3⅞	2	Zapata				1722	2⅛	2	2⅛	
27⅞	13⅞	Zayre	.40	1.6	167	2783	25	24⅞	25	+ ⅛
15½	8¼	Zemex	.40	3.3	15	6	12	11⅞	12	+ ⅛
30	13½	ZenithE				1629	18¾	18¼	18⅞	+ ⅝
10¾	9½	Zenin n	.59e	6.1		z119	9⅞	9⅝	9⅞	+ ⅛
3⅞	1	vjZenLb				237	1⅞	1⅞	1⅞	− ⅛
21⅞	13¼	ZenNtl	.80b	4.9	7	387	16⅞	16¼	16⅞	+ ⅛
17¼	13	Zero	.44	2.7	14	63	16½	16¼	16½	+ ⅛
29	16⅞	Zurnin	.68	2.5	16	262	27½	27⅛	27½	+ ⅛
11⅛	8⅞	Zweig	1.04	10.		408	10⅛	10¼	10¼	− ⅛
10⅛	8	ZweigT	n.16e	1.7		524	9⅜	9¼	9⅜	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices December 15

OVER-THE-COUNTER

Nasdaq national market, 4pm prices December 15

— X-Y-Z —

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
XL Dta		17	256	26½	25¾	26½	+ ¼
XOMA			4843	13	12½	13	
X-Rite s		14	111	9⅛	8¾	8¾	
Xicor		13	1807	8	7⅞	7⅞	+ ⅛
Xyvsn			338	5½	6¼	5⅝	+ ⅛
YelowF	.70	20	959	31⅞	31⅛	31⅞	+ ½
ZionUt	1.44		137	21	20½	21	+ ½

The Business Column

A need to demystify software systems

Bricks and mortar might seem far removed from the business of writing computer programs, but there are powerful lessons for the software industry in the way the construction business is developing in competence and sophistication.

Building projects are rarely late or over budget. Software projects, invariably, are both.

A spate of studies over the past few years has sought to analyse and explain the software business, frequently arriving at contradictory conclusions and recommendations for the success of individual companies or countries.

The reasons for this new interest are easy to identify. The battle for hardware markets is largely over, at least for European companies. But there seems a possibility of salvaging something from software. As the most expensive single element, it is assuming increasing importance in modern information systems.

Most studies of the industry, however, stumble over two misconceptions. First, that the software business can be treated as a single, homogeneous industry. It cannot. It is a loose affiliation of businesses differing in size, direction, ambition, capabilities and product. The only common feature is a requirement to write instructions for a computer to obey. There is bespoke software, written to order for a single customer; packaged software, written to be used without modification by many customers; systems software, written by hardware manufacturers to control their own computers; and management information systems departments, developing in-house software.

Possibilities for a healthy industry

Second, there is a belief that because hardware and software are operationally inseparable, they are in some way equivalent and should show a similar rate of progress. This is the origin of the notion that although computer hardware has shown dramatic improvements in price/performance over the past decade, computer software has in some way failed to keep pace.

So what possibilities remain for a healthy European industry? Students frequently bemoan its failure to succeed in packages but it is hard to see what could happen to make that possibility more likely. Success in packages requires a bright idea – where, for example, is the next Lotus 1-2-3? – and a large homogeneous market. European software specialists have bright ideas, but the most ardent single European marketeer might have difficulty envisaging even a simple accounting system that could be sold without modification across Europe.

Large software projects costing millions of dollars and involving large teams of software designers are another matter. The complexities of the kind of computer systems envisaged for the private and public sector in future guarantees there will be increasing numbers of this kind of project. The penalties for failing to meet contractual responsibilities on time, cost and where software failures could threaten life, will be severe.

Too many independent software houses (and MIS departments) still operate at the level of the jobbing builder, offering impossible timescales for completion and unrealistic estimates. Europe could produce a small number of companies able to operate at such a high level, and that is probably all that is needed.

The move from independent software house to systems integrator with prime contractor responsibilities will imply size, multinational capability, financial muscle, professional management of a kind uncommon in the software business, and a first-class software toolkit (computer programs which write computer programs). CAP Gemini Sogeti of France and the Sema Group and SDF-Scicon of the UK are embryonic examples, as is Andersen Consulting, the US-based consultants.

Successful systems integrators will have to be able to manage the different kinds of software subcontractors with which they will have to deal. They will also have to understand the need to demystify the software business; to turn software production from craft to engineering discipline.

Alan Cane

THE MONDAY INTERVIEW

A double quest for peace

Alan Pike meets the Most Rev Dr Robert Eames, Anglican Primate of All Ireland

This is the final week of Advent, the season in which the Christian Church prepares to celebrate Christ's birth and looks forward to His coming again to judge both the quick and the dead.

The Most Rev Dr Robert Eames, Anglican Archbishop of Armagh and Primate of All Ireland, is one of the most senior clergy in a part of Europe where the transition between the quick and the dead is often a cruel and violent one.

He has conducted the funeral services of 56 murder victims during the current troubles in Northern Ireland. Yet he is convinced that there are signs that the Christian message of reconciliation, which will be proclaimed from pulpits again this Christmas, is gradually bringing the province's divided communities closer to peace.

This year has seen Dr Eames promoted into a second quest for reconciliation on a wider stage. He is the chairman of an international commission trying to finds ways of containing the divisions within the world-wide Anglican communion which are about to arise from the consecration of its first woman bishop.

Should he prove successful at this demanding task, it is sure to give new strength to suggestions that Dr Eames could be the person to succeed Dr Robert Runcie as Archbishop of Canterbury. Robert Eames — confusingly now commonly nicknamed Robin — grew up in Northern Ireland and studied law before his ordination. He spent 12 years in parishes, most of the time in Belfast, before becoming Bishop of Derry and Raphoe in 1975. In 1986 he became Primate of All Ireland at the unusually young age of 49. He responds to the rumours about succeeding Dr Runcie by saying that he has quite enough to cope with at the moment.

Dr Eames begins analysing the problems of Northern Ireland by speaking enthusiastically and in knowledgeable detail about industry. There must be a quick end to the inevitable uncertainty provoked by the proposed privatisation of Harland and Woolf's Belfast shipyard and Short Brothers, the city's aerospace company. Industrial relations in the province are second to none. Many sectors of industry, like linen, glassware and scientific products, have great success stories to tell. Northern Ireland's agricultural sector is preparing hard for the challenges of 1992.

He is anxious to set the province's problems in an economic and industrial context for two reasons. One is that he is an "unashamed advocate of Northern Ireland" who, on his frequent visits overseas, is determined to emphasise the achievements of a place which outsiders often know only from pictures of violence. The other is that he attaches great importance to economic and industrial growth in defeating the darker side of life in Northern Ireland.

"It is very important for people to realise that this is not a religious war. It is not a case of Protestant attacking Roman Catholic and Roman Catholic attacking Protestant *per se*. The ingredient is there and because of that we cannot remove religion from the conflict, but I think any objective view would say that it is a social, political conflict. And in that situation the man of terror finds that he has the ingredient to promote ferment."

Religious war or not, the labels Roman Catholic and Protestant retain a shining significance in Northern Ireland which has dulled in many other places. Dr Eames and Cardinal Tomás O Fiaich, the Roman Catholic Primate of All Ireland, share the title of Archbishop of Armagh. Their two cathedrals, both dedicated to St Patrick, Ireland's patron saint, face each other from hilltops across Armagh city. Viewed against the backcloth of Irish history, the sight produces one of symbolism's more picturesque touches.

Since the religious ingredient cannot be excluded from the conflict, could the churches not do more to break down barriers between the Roman Catholic and Protestant communities? They are, responds Dr Eames, working together more closely than in the past, and more than is often realised.

Clergy of different denominations now meet much more regularly to seek common solutions to problems. Dr Eames and the Rt Rev Cahal Daly, Roman Catholic Bishop of Down and Connor, have recently returned from an ecumenical mission to the US where they pleaded with Irish Americans not to give money to Irish causes which ended up buying guns. After last year's Enniskillen Remembrance Day atrocity, the two bishops conducted a service in Belfast Cathedral where the overflow crowd outside was as big as the congregation inside. Nobody asked or cared who was Roman Catholic and who was Protestant. People were simply there – which is, says Dr Eames, as it ought to be.

But are closer relationships between the clergy reflected among their congregations? "There are still many areas of Northern Ireland where ecumenicalism is looked upon as a dirty word. In a situation where the extremist can carry tremendous weight you are an object of suspicion if you are seen to be deviating too much from the certainty of where you have been born, the certainty that you have been brought up to be like this. But in other areas of Northern Ireland ecumenical relations are flourishing, and we are able to do many things together that we were not able to do before."

A successful outcome to the reconciliation in Northern Ireland would be manifested in "a pluralist society in which people were not asked to change their principles, but were invited to find what common purpose they can have and discuss differences in peace," says Dr Eames, whose responsibilities extend to both sides of the border. He believes that Ireland consists of two minorities, the Roman Catholics who are a minority in the North and the Protestants who are a minority in all Ireland.

On the basis of his experience, Dr Eames says he would not go so far as making the simplistic statement that violence does not pay. It achieved some things in terms of the sorrow and uncertainty which it caused. But the people of Northern Ireland had discovered the disadvantages which came from supporting violence.

"The man of terror is offering nothing except further suffering. He is not offering a solution. The solution lies in the sort of reconciliation that the churches are talking about and the sort of industrial development that we are seeking. We desperately need investment. We desperately need understanding from the mainland UK. We desperately need friends who will be aware that there is another side to Northern Ireland."

In the midst of his activities in Ireland, which involve him in a much wider range of secular issues than those experienced by bishops in many parts of the world, came what Dr Eames describes as the body blow of being asked to chair the Anglican Church's Commission on Communion and Women in the Episcopate.

Since the 1970s, when churches in the US, Canada and New Zealand began ordaining women, the issue of women priests has threatened the Anglican church with its most damaging split for generations. The problem reached a new peak at the Lambeth Conference of bishops in the summer with the defeat of a resolution seeking to slow down the movement towards women bishops. Since then the Rev Barbara Harris has been elected Suffragan Bishop of Massachusetts, and she is likely to be consecrated early next year.

While many people in the Anglican church believe the US Episcopal Church should have awaited the outcome of Dr Eames's commission before selecting a woman bishop, he takes a more relaxed and generous view. "At least it puts a human face on the problem. We aren't just discussing a theory anymore."

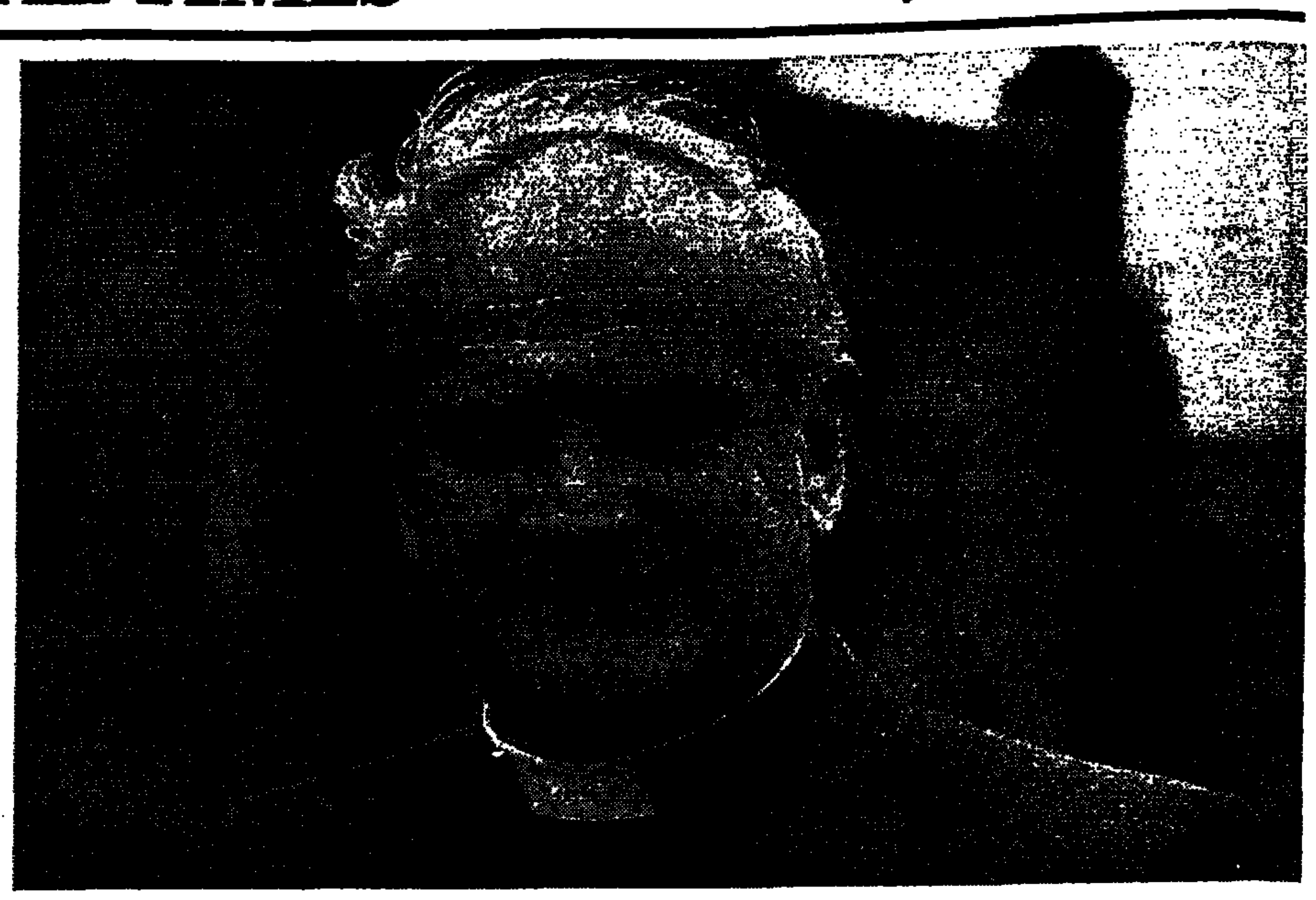
Some observers believe the issue of women priests and bishops is divisive enough to rip the Anglican Communion apart and do untold damage within individual national churches like the Church of England. No one doubts the sincerity with which conflicting views are held. But Dr Eames, who is due to present final proposals to his fellow bishops in April, pleads with people not to take sides too quickly. When people do this they get backed into corners, pride comes into it, and they have to fight their corners.

"I believe the critical question in all this is what we do with dissent. Do you allow a situation to emerge where dissent is driven under the surface and you get deeper hurt than ever, or do you create a situation where dissent can be acknowledged as sincere, and you go on to create a formula that allows it to co-exist with assent?"

Dr Eames is talking about women bishops, but they are the words of someone whose ministry has been spent in Ireland. It is easy to see how one of his two current roles has prepared him for the other. In his Christmas message to church-goers this week he will be urging them to value the importance of the small gesture. The advice itself might seem a small gesture but it comes from someone whose experience has taught him that, when faced with totally opposing points of view, it is the only way of building the confidence from which bigger gestures can come.

PERSONAL FILE

1937 Born
1960 Research Scholar and Tutor, Faculty of Laws, Queen's University, Belfast
1963 Curate Assistant, Bangor Parish Church
1966-74 Rector of St Dorothea's, Belfast, and later of St Mark's, Dundela
1975-80 Bishop of Derry and Raphoe, and later of Down and Dromore
1986 Archbishop of Armagh and Primate of All Ireland
1987 Select Preacher, Oxford University



'There are still many areas where ecumenical is a dirty word'

Confessions are not safe evidence

A.H.HERMANN

I have no soft spot for terrorists and I believe the Irish government would not have extradited Mr Ryan, the former priest, whatever was said or left unsaid in the UK. They have sufficient domestic reasons for refusing extradition of a Catholic priest and an IRA suspect. The publicity unleashed by the Belgian government's refusal of an earlier British request only provided a convenient excuse. Yet, is it really such an insult to British justice to say that the publicity made a trial unsafe?

If it is, then there is no justification for the UK's law of contempt of court, prohibiting even moderate comment on cases about to be tried for fear that the course of justice could be perverted and judge or jury, or both, influenced by broadcasts or newspapers. The distorting influence of Northern Ireland's public opinion, divided but fanatical, and reinforced by threat of violence and by assassination of judges, has been recognised by the establishment of the "Diplock" courts, in which the judge sits without jury.

The vilification of British courts has been for a long time part of the IRA's propaganda abroad

If the argument of the Irish Attorney General, though used in a bad cause, appears to be reasonable in itself, one ought to look for other reasons for the British government taking offence so easily. One such reason may be that the vilification of British courts has been for a long time part of the IRA's propaganda abroad and particularly in the US. The other reason is probably the fact that English criminal justice went through a particularly bad patch recently.

On the one hand, none of the lessons read to judges by the Lord Chief Justice and the Lord Chancellor could prevent in a few cases an absurdly tolerant attitude towards sexual crime. A man who was this month sentenced to life, committed a series of sex offences and murders of old women. Some of them could have been spared their terrible fate if an earlier prosecution succeeded. It failed for "lack of evidence".

On the other hand, there has been a number of serious allegations that some people in prison for murder are in fact innocent. Recently, the Court of Appeal rejected two applications for a leave to appeal after new evidence was presented which, in the opinion of some very knowledgeable people, puts the conviction in doubt.

In the case of the Guildford Four, two eminent Lords of Appeal, Lord Devlin and Lord Scarman, felt compelled to record their doubt in a joint, full-page article in The Times. The two Law Lords are clearly uneasy about the verdict which found the four petty criminals guilty of the Guildford bombing, to which a more "professional" IRA bombing gang later publicly confessed rather persuasively. They also think that the refusal of retrial rests on a wrong interpretation of section 2 of the Criminal Appeal Act 1968 by the House of Lords which in 1974 withdrew from judges the power to draw conclusions from new evidence which should be reserved to the jury.

I would not worry too much about this shift of power from the the jury to the judges. The jury is not the only safeguard of justice and, indeed, in cases requiring expert evaluation of evidence – and this applies not only to City fraud – is hardly a safeguard at all. A more serious obstacle to reaching a just verdict is embodied in the criminal procedure which allows conviction on the basis of uncorroborated confession of the accused.

This was the basis of the verdict on the Guildford Four. In another case last week, the Court of Appeal again rejected an application for leave to appeal on the basis of new evidence against a conviction mainly based on confessions or statements made to the police and denied in court. Three men were found guilty of the horrific murder of Police Constable Keith Blakelock. New evidence was offered that one of those who "confessed" to the police is easily suggestible and has a mental age of 10 or 11. Lord Lane, the Lord Chief Justice, said that being more susceptible to suggestion did not put him outside the ordinary experience of the jury. But how was the jury to know that he was so susceptible if it was not presented with any evidence on the subject?

However, the difficulties of evaluating confessions made to the police are only a consequence of the all-pervasive fault of the English criminal procedure which admits as "evidence" statements taken by the police and denied or withdrawn in court. This practice contradicts the fundamental rule of the English – and indeed any civilised – criminal trial: that the judgment must be based on evidence and testimony presented in court and not on hearsay; a police record contradicted by the accused is hearsay, and is tainted further by its presentation by the accuser. It may be true or false but it is certainly not evidence and would not be admitted as such in many countries which do not lag behind Britain in their prosecution of crime.

The public was shaken by allegations that some in prison for murder are innocent

If the Home Secretary plans, as is believed, to facilitate criminal retrials, the confessions unsupported by other evidence ought to be his first target. By ruling them out he could enhance the credibility of British criminal justice and gain wider support in the battle with the terrorists.